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CORPORATE FARMING IN THE UNITED STATES

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I

Corporate farming is not new in the United States. The companies of "gentlemen adventurers" setting out in the 17th century to establish settlements in the New World were not corporations in a modern sense, but in organizational form and motivation they bear a striking resemblance to corporation farming ventures of recent decades. The twin lures of short-run profits and long-run capital gains have been major forces in shaping land use patterns and institutional structures throughout America's history. For over 300 years repeated efforts were made to use large-scale organizational forms to reap these rewards in agriculture. Up to 1950 the record was one of almost consistent failure.

Among early failures were two farms established in 1833 near present-day Dupont and Toledo, Washington, by the Puget's Sound Agricultural Company, a subsidiary of the Hudson's Bay Company. Both in genesis and demise, this venture was prophetic of future corporate farming trends.[1/] The farms were created to enable the Hudson's Bay Company to supply wheat, livestock and dairy products under contract to Russian fur trading posts in Alaska. After a few years of early success, the farms steadily lost money. The company was unable to compete with encroaching small settlers, whose activities "raised the price of labor and made it more difficult to maintain a disciplined labor force."[2/] The company sold its land to the United States Government and liquidated in 1870, having

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*/ Scientific Journal Series Paper No. 8187, Minnesota Agricultural Experiment Station. Presented at the Annual Meeting of the Economic History Association, Wilmington, Delaware, September 22, 1972.

paid only seven dividends in 32 years.

Examples of successful corporate farms can be found before 1950 among fruit and vegetable farms of California, sugar and pineapple farms of Hawaii, and ranching and land-holding corporations in Arizona, Texas, the Mountain States, the Gulf Coast and Florida. A distinction must be made between corporate ownership of rural land, and corporate farming. There has always been a significant area of land owned by large business firms or corporations in the United States and especially since the railroad land grants were inaugurated in 1850. Corporate holdings figured prominently in the Florida land boom of the 1920's. A 1945 study of land ownership in the United States reported 5.6 per cent of all land in farms as owned by corporations but many of these were not farm operating corporations.[3/] No national data exist prior to 1968 on the actual extent of corporate farm operation in the United States.

II

The first national attempt to measure corporate farms as a class was in 1968. In thatyear the U.S. Department of Agriculture estimated that there were 13,313 farming corporations, comprising 1 per cent of all commercial farms, operating 7 per cent of all farm land, and accounting for 8 per cent of gross sales of farm products.[4/]

There are wide variations among states and regions. Florida and California had one-fifth of the total number of corporate farms. They accounted for 31 per cent of the land in farms in Florida, 28 per cent in Utah, 22 per cent in Nevada, and 19 per cent in California. They were most prominent in field and specialty crop areas of Florida and California, in ranching

areas of the Great Plains and Mountain States, in the Massachusetts-Rhode Island-Connecticut area, in Washington and Oregon and in the Mississippi Delta States. They occupied one per cent or less of the land in farms in most of the Middle West.

These 1968 data are almost certainly underestimated. Separate and more exhaustive studies indicate an underestimation of the number of corporate farms of some ten per cent in Wisconsin and over fifty per cent in Minnesota and Iowa.[5/] Partial verification of underestimation is provided by data from the 1969 Census of Agriculture. A time lag is involved, since the USDA data were for 1967-68 while the Census data are for the end of 1969. There are also questions of definition. The USDA study of 1968 omitted "landlord" (or land holding) corporations, and seriously failed to account for many poultry and specialty farms.

The two sets of data are thus not strictly comparable. Still it is significant that the 1968 study by the Department of Agriculture reported 13,313 corporation farms, holding 60,056,000 acres, while the 1969 Census of Agriculture reports 21,513 corporation farms, holding 80,831,000 acres. According to the Census, among commercial farms with annual sales of $2500 or over, corporation farms accounted for 1.2 per cent of the number of farms, 8.1 per cent of the land in farms, and average 3,757 acres in size.[6/]

A third source of data is provided by income tax returns. Federal tax records for 1965 reported approximately 18,500 corporations having their principal source of income from farming. These accounted for 12.5 per cent of total farm business receipts.[7/] The income tax data thus suggest that the dollar volume of business done by corporations having farming operations is about 50 per cent larger than that reported in the 1968 survey by the U.S. Dept. of Agriculture (12.5 per cent of gross farm receipts instead of 8

per cent).

A major source of confusion in interpreting these data lies in the deceptive precision of the term "corporation farm". In a legal sense, it is sharply defined. But in a functional sense, there are at least three classes of corporate farms that differ dramatically: Family-farm corporations, family-owned corporation farms of larger than family-farm size, and non-family corporation farms.

The U.S. Dept. of Agriculture survey in 1968 estimated that 66 per cent of all corporate farms involved "family corporations". In the Mountain States and Northern Plains, the figure was 75 per cent. Many of these are not family farms in that they employ more than 1.5 man-years of non-family labor. It is important to note that both the smallest and some of the largest corporate farms fall in the "family corporation" class.

The non-family class of corporate farms includes those held by large corporations, frequently conglomerates, whose stock is typically listed on stock exchanges and publicly traded. These corporations have generated most of the concern about a threatened corporate "take-over" of American agriculture. Although their numbers are small, their farming operations are often quite large. It is remarkable that no national data exist to permit an estimate of their importance.

Some indication of the skewness in the size distribution of acres farmed by corporations is provided by the 1968 Department of Agriculture survey. For the 48 states, corporations holding 10,000 acres or more accounted for 8 per cent of all farming corporations but held 71 per cent of corporate farm land. Corporations holding less than 1,000 acres totaled 58 per cent of all farming corporations but held less than 5 per cent of the land in corporate farms.[8/]

III

What happened after World War II to stimulate a sudden expansion of interest in corporation farming? In answering this question it will be helpful to ask another: Why did corporation farming fail to develop in parallel with the rapid expansion of agricultural mechanization in the 1920's and 1930's? It was not for lack of effort. One of the best publicized attempts was made by the Wheat Farming Corporation of Topeka, Kansas, organized in September 1927. With holdings in excess of 65,000 acres in Northwestern Kansas, the corporation mobilized large-scale mechanized equipment, land and capital in the specialized production of wheat. "There will be no surplus", was one of the headings used in literature developed to promote stock sales in 1929. "Every cent decrease in the average level of wheat prices brings white bread within the reach of hundreds of thousands of hungry Orientals."[9/]

The timing could not have been worse. Within three years the collapse of wheat prices led to dissolution of the corporation. The political reaction stimulated the Kansas legislature in 1931 to enact a law prohibiting farm corporations from "producing, planting, raising, harvesting, or gathering wheat, corn, barley, oats, rye or potatoes or the milking of cows for dairy purposes."[10/]

This experience was dominated by a faith in economies of large-scale production that has been one of the major themes in the history of corporation farming. And it illustrates one facet of the evolution in interpretation of Frederick Jackson Turner's thesis regarding the role of the frontier in American history.

It has been difficult to sustain the "labor safety valve" version of the Turner thesis by reference to Eastern industrial labor or wages in

manufacturing. It is easier to support the Turner thesis by reference to agricultural labor. As long as free land was available on the frontier it was difficult to hold hired labor in agriculture. The desire to create large farms has been continuously present in America, but capacity to hold a labor force was available only under slavery in the South. In the Middle West, the larger-than-family farm had to compete with the frontier in the 19th century and with the rapid expansion of industry in the 20th century for its labor supply.

Until the advent of efficient tractors in the 1920's, and in large numbers in the 1930's, there was little opportunity to substitute capital for labor in agriculture on a scale that could offset the added costs of wage-labor supervision. The early tractors were primarily substitutes for horses and mules, but not at first for men.[11/] The grain combine was much more a substitute for men. In wheat areas, the potential for large scale or corporate farms increased greatly after combines came into general use. This helps explain the flurry of experiments with corporate and large-scale farms in the Great Plains in the late 1920's.

The Depression of the 1930's put an end to most of these undertakings. As the Depression was ending, World War II made it difficult to mobilize either labor or equipment to operate a large or corporate farm. Fear of a repetition of the farm price collapse of 1920-21 following the end of World War II also inhibited large scale investment of non-farm capital in agriculture in the immediate post-war period.

Until the middle of the 20th century, conditions were never favorable for the growth of large scale and corporate farms in the Middle West and Great Plains. It seems reasonable to assign a part of the cause to the lagged influence of the frontier, which had retarded the build-up of

redundant agricultural labor supplies. It was a labor supply, and not capital, that was a critical variable in the development of large and corporate farms in the period prior to World War I, when capacity to substitute machines for men was limited. Mechanization created a technological potential for large-scale agricultural enterprises which was well-developed by the end of the 1920's. Delay in exploiting it must be explained in terms of price and market relationships, and the dislocating effects of wartime.

A major change in the economic climate occurred after World War II. The war generated relatively favorable price-cost relationships but farmers, and prospective farm investors, entered the post-war period with the history of 1920-21 clearly in mind. The response of prices after 1945 did not lessen their apprehension. An upward surge in 1945-47 reflected short-run demands for food for areas devastated by war, but by the end of the 1940's the thrust of this demand had eased. Wheat prices fell $1.00 per per bushel from January 1948 to July 1949.[12/] The Korean war gave a temporary fillip to all commodity prices including farm products. By 1953 this was dissipating but there was no disastrous collapse. Land prices reflected these trends. It is significant that only in 1950 and 1954 was there a decline in the index of United States farm land prices, in the entire period from 1939 to 1972.[13/]

The early 1950's stand out as a major turning point in American agricultural history. It slowly became apparent that there was not going to be a repetition of the farm price disaster of 1920-21 or of the associated destruction of capital values in land. A policy base was thus created for a reappraisal of investment possibilities in farming. Land prices were relatively low, farm prices cushioned against collapse, and a rich storehouse of new technology was available. There was an opportunity for strategically placed investors to capture a unique capital gain.

As Donald A. Nichols has emphasized, "A change in the rate of (economic) growth leads to a once and for all capital gain for land holders. This is because the returns to land are capitalized at a rate equal to the marginal product of capital minus the growth rate, (or alternatively, because the future returns to land can be expected to be larger with a high growth rate than with a low one)".[14/]

One explanation for the increased interest in corporation farming after the mid-1950's was a realization that a basic change in the rate of growth of agricultural output was in process. Those fortunate enough to be landowners at the time of this change would be able to capture a part, at least, of a resultant one-time capital gain. A fundamental shift in the production function was under way.

Two seemingly minor institutional changes in the 1950's also had a significant impact on the development of corporation farming. One was a change in the Internal Revenue Code in 1958, permitting corporations having only one class of stock, no more than 10 shareholders, who must be individuals or estates, and meeting other conditions to be treated for income tax purposes as if they were partnerships. In these "Sub-chapter S" corporations, income can be "passed through" the corporation and taxed only to the shareholders, thus avoiding double taxation. An even more important feature for many non-farm investors is that capital gains can be passed through to the shareholders, where they will be taxed at favorable rates. Similarly, a corporate operating loss can be passed through, permitting the shareholder to take his share of any carryforward or carryback deductions for corporate net operating losses.[15/]

This increased the attractiveness of farm incorporation as an alternative to farm family partnerships and helps explain the fact that 19,716 of the

21,513 corporate farms ennumerated in the 1969 Census of Agriculture had no more than 10 shareholders. Not all of these are Subchapter S corporations, and many are simply incorporated family farms or ranches, but many are much larger than family-size operations. Available data do not permit a separation.

The second institutional change was an alteration in the Internal Revenue Code in 1951 permitting farmers to treat livestock held more than 12 months for draft, breeding, or dairy purposes as "property used in trade or business."[16/] As we will see, the effect was to make livestock breeding highly attractive to non-farm investors in high income brackets. A corporate form of business was usually advantageous if non-farm investors were to exploit this windfall. This explains much of the recent corporate activity in ranching areas, and in livestock breeding generally.[17/]

The stage was set in the 1950's for an increase in corporation farming activity. The consequences can be read from data on the pace of incorporation. Of all farming corporations surveyed in 1968 by the Department of Agriculture, 54 per cent had begun farming operations in 1960 or later. In the Northern and Southern Plains states, just under 70 per cent of all 1968 farming corporations started operation in the 1960's.[18/] Together with the Mountain States, these were the three regions in the United States in which over half of all farming corporations were engaged in beef cattle breeding and ranching. The other area of rapid corporate farm expansion after 1960 involved soybeans in the Delta States of Mississippi, Arkansas and Louisiana. Extensive land clearing operations were carried out in these states in the 1960's and the corporation farm was a favored organizational device for these activities.

IV

Two major and interrelated economic arguments are used to explain and justify the growth of corporation farming: Economies of size, and provision

of capital. Given a history of small family-sized farms and rapid technological change, it is understandable that a part of the national farm folklore includes a faith in bigness. "Expand the size of your farm business" has been the advice to farmers for over 50 years, from agricultural universities, experiment stations, extension services and their supporting agencies in the U.S. Department of Agriculture. The market development activities of farm equipment manufacturers and supply industries have been at least as effective. Virtually the entire educational and promotional apparatus of American agriculture has focused on size. Up to a point the argument has had merit.

It is being increasingly questioned in recent years. Virtually all current studies of economies of size in agriculture yield the same conclusion: In all but a few types of farming, well-managed one and two-man farms can obtain most of the gains to be had from increased size, as measured by decreases in cost per unit of output.

Madden and Partenheimer, in a review of empirical and synthesized data on economies of size, conclude that the most important limitations on farm size are uncertainty, and the cost of coordination, or those functions of management that go beyond mere supervision.[19/] These are costs that can easily escape control in large agricultural firms, due to lack of uniformity among resources and the dispersed nature of the production process.[20/]

Where cost of production data have been studied for a wide range in farm sizes, they show a sharp decrease in unit costs as small-sized, one-man farms are expanded and organized efficiently. In most field crop production, the further expansion of the farm to 2-, 3-, 4-, and 5- man size may achieve increased profits, but little or no reduction in unit costs.

Incorporation and the expansions in farm size that are taking place often have other explanations. The large firm can exercise market power, both in purchasing inputs and in marketing output. This is especially the case with integrated units in which a producing firm owns a processing or marketing outlet, or vice versa. Krause and Kyle point out that:

> "The ability to deliver a uniform product on a year-around basis increases the supplier's ability to influence price and may eventually permit annual delivery contracts with formula pricing... Very large farm units, because of amounts purchased, obtain volume discounts by purchasing agent techniques. They negotiate directly with the manufacturers, jobbers, or distributors. . . This method of purchasing often involves bids by suppliers that can substantially reduce or eliminate distributor and dealer margins.[21/]

A related characteristic of the large, integrated firm is noteworthy. If one unit in the integrated chain can enjoy favored tax treatment, it is rewarding to push the combined profits from the integrated enterprise into the favored segment. Consider an integrated firm involving a ranch, a cow herd, a feedlot complex, and a slaughtering plant. It will pay to operate the slaughtering plant as a producers cooperative, with only enough profit to provide incentive bonuses for management, and do the same with the feedlots. All profits can be pushed down the integration chain and converted into capital by heavy investment in breeding stock, land improving practices, water supply, irrigation, and other improvements. When the cattle or the ranch are sold, any gain will be taxed at capital gains tax rates.

This underlines one way in which public policy has often and unintentionally promoted corporation farming. It is virtually impossible to aid

family farms by preferential income tax treatment. Any attempt to help the typical farmer via income tax policy is defeated by the fact that he seldom has enough income for tax concessions to be significant. Big farm corporations have often been able to take advantage of concessionary tax policies intended to help smaller firms. Examples are provided by tax laws permitting costs of soil conserving practices to be deducted as current expenses up to 25 per cent of gross income from farming, with no limit on the amount. Land clearing expenses can be deducted as current expenses up to 25 per cent of taxable income. Much land clearing and corporate farm activity in the Mississippi Delta States in the past two decades was stimulated by these tax provisions. For them to be attractive it is necessary to have significant income. Large farms are the principal beneficiaries.[22/]

Changes in Federal income tax legislation in 1969 reduced these advantages. There is now provision for recapture of the benefits in full if the land is sold within five years after acquisition, and on a declining scale up to ten years. There is no recapture on sales after ten years.

A second argument for corporation farming is that only in this way can farming attract the capital needed to take advantage of new technology. This was the primary reason for an expected increase in corporation farming cited by the Technical Director for Agriculture of the Chase Manhattan Bank, in an influential speech in early 1969.[23/] A variant of this theme has been used to justify the favorable accounting treatment of farmers by the Internal Revenue Service, in permitting them to report on a cash basis. This ruling was adopted, it has been argued, to attract outside capital into agriculture.[24/]

There is no evidence to support these claims. Because their bookkeeping records were frequently deficient, farmers have always had the option of reporting on a cash instead of an accrual basis. The Revenue Act of 1951

elaborated on this ruling by permitting farmers to treat livestock held for more than 12 months for draft, breeding or dairy purposes as property used in trade or business. By not reporting on an accrual basis, which involves the valuation of inventories at the beginning and end of the tax year, the farmer has a "zero basis" for the valuation of any animals sold during the year. The entire cost of raising the animals can be treated as current expenses, and the net proceeds are capital gain, taxable at favorably lower rates.

After a careful review of the legislative history of this feature of the Internal Revenue Code, Charles Davenport concludes that "There is nothing to suggest that Congress was purposefully subsidizing, in a rather haphazard manner, certain segments of the farm industry."[25/]

All available evidence indicates that agriculture in the 1960's was better supplied with capital than at any time since the First World War.

> "Forty years ago, by any reasonable measure, the farm sector was disadvantaged in the money markets. But at least since World War II, there has apparently been discrimination in favor of agriculture in the national allocation of money. . . A result of this 'favorable' money policy is the overcapitalization of the farming sector relative to other sectors of the economy and relative to the true productivity (in a social sense) of marginal capital allocation to the farm sector."[26/]

The capital supplied by the federal government to create the various components of the cooperative Farm Credit System (Federal Land Banks, Production Credit Associations, Banks for Cooperatives) had all been repaid by 1968 and the system is now fully owned by its farmer borrowers.[27/] Reflecting this shift in relative supply of capital, life insurance companies began to withdraw capital from agriculture after 1965. From 1940 to 1965, life

insurance companies had annually made from 16 to 21 per cent of all new farm mortgage loans in the U.S.: in 1965 the figure was 19 per cent. By 1970 this had declined to 4 per cent.[28/]

The recent cycle in the formation of large-scale corporation farming enterprises reached its peak in 1965-70. This was not a response to a capital shortage in agriculture. The driving force came from non-farm investors seeking tax shelters, quick returns from new technology, and capital gains through land value appreciation.

Incentives rooted in tax policy were reinforced by the nature of government farm price support programs. These have played a key role in promoting corporation farming in field crops, especially wheat, feed grains and cotton. With benefits a function of historical acreage base, an incentive was created for farm size enlargement. Farm program payments also provided financial leverage that could be exploited by large or corporate farms but was not equally available as a credit base for small farms.

Urban expansion, population concentration and threats of a world food shortage also help explain the flowering of interest in corporation farming in the 1960's.

Large numbers of us are apparently Malthusians at heart. We seem transfixed by the simplicity of the proposition that population continues to expand while the surface of the earth is fixed. This argument has appeared in virtually all of the promotional literature aimed at prospective investors in corporate farms. When coupled with recent attention to the population explosion and environmental deterioration, the result was the creation of a climate of opinion in which food production emerged as a safe long-run growth industry. Fear of inflation provided powerful reinforcement. Beginning slowly in the mid-1960's and accelerating with the Viet Nam war, investors

were increasingly susceptible to the argument that they should move some of their money into land.

> "Owing to the increase in population, particularly in farm-rich places like California, arable land has been growing critically short. . . In the opinion of many experts, arable land is bound to grow scarcer.[29]

The retreat from Malthusianism was rapid after the first impact of the "Green Revolution" in the late 1960's. India was almost self-sufficient in wheat and rice by 1971; Japan was exporting rice; and the world trading community no longer accepted the inevitability of famine-induced demands for farm products. It became clearer that investments in corporate farming ventures would have to be justified primarily by domestic market potentials and not by prospective foreign demand.

V

There are types of farming for which capital requirements and economies of size are often beyond the reach of single-proprietor or family-type farms. Heading this list are integrated poultry and egg enterprises; mechanized orchards, citrus and nut groves; large-scale beef cattle feed lots; pineapple and sugar cane; and vegetable crops for canning or processing. It is likely that corporation farming activity will remain strong and even expand in these types of farming. The most vulnerable sectors are beef breeding and certain types of fruit and nut crops. Tax policy has attracted non-farm capital into these sectors to an extent that defeats any attempt to argue the case for corporate or large-scale farming on the basis of conventional tests of efficiency or economies of size. The greatest stimulus arises from capital-gains tax provisions and from the opportunity for non-farm investors to use farm losses to offset non-farm income. These are under increasing

attack in the Congress, and could easily be altered by a policy change.[30/] A significant part of corporate farm activity in tree-crop and ranching areas has been initiated by non-farm investors seeking tax shelters.

For corporate farming sectors less flagrantly stimulated by farm price supports or tax policy, there has been a tendency to forecast growth by drawing analogies from industrial history. Although the corporate era arrived late in farming, the usual assumption is that the course of its development has been charted by the industrial corporation, and the only doubtful feature is timing. There is in the literature virtually no discussion of the possibility that corporate farming may not trace out the same sequence of growth stages that characterized industry.

In tracing the growth stages of large-scale economic organizations in America, Chandler and Galambos characterize 1870 to the early 1930's as the first stage, in which firm growth was confined to horizontally or vertically integrated units within traditional product lines. A steel mill grew by absorbing other steel mills or by integrating coal, ore and transport components in steel-making. And in the early corporate firms, family control played a major role.[31/]

This seems superficially to fit the pattern of recent development in corporation farming. Family-farm corporations can be likened to early stages in the emergence of industrial corporations almost a century earlier. One leading farm management consultant has concluded that, in agriculture:

> "Many family corporations will 'go public' when they are transferred to the next generation. The desire will be there for further expansion and this will be the natural route."[32/]

What reasons are there to question this vision of the growth cycle in corporate farming? Chandler and Galambos point out that the first stage from 1870 to the 1930's involved the rapid growth of primary industrial

organizations, or "large-scale complex organizations which were essentially concerned with the job of organizing people in order to provide goods or services". This first period witnessed a much slower growth of "a second kind of large-scale organization which was largely concerned with coordinating the activities and with communicating between other organizations. These secondary organizations included trade associations, union federations, and some governmental agencies." After the 1930's this pattern was reversed in industry, and secondary organizations grew much more rapidly.

In agriculture, the large-scale secondary or coordinating organizations came first. The emergence of corporate agriculture has thus occurred in the "second stage", with agriculture well supplied with coordinating organizations. Among them are agricultural cooperatives, farm political organizations, and a complex structure of informational and governmental organizations, including universities, experiment stations, extension services, the Soil Conservation Service, the Farm Credit Administration, crop and livestock statistical reporting services, market news and weather reporting services, the Rural Electrification Administration, a structure of demarcated milk sheds governed by Market Orders, and a variety of related secondary organizations.

The institutional infrastructure of agriculture is highly developed. Many services that a large-scale primary organization might provide are now available to American agriculture through large-scale secondary organizations. This applies significantly to the functions of research and development, and dissemination of information. In industry, the ability of private firms to control information flows and dominate research and development activities has frequently been decisive. These opportunities are greatly reduced in agriculture. If a flow of capital can be maintained, it is not at all clear that large-scale industrial-type corporation farms are essential to continued

agricultural development.

A closely related point concerns the attitude of workers toward their jobs. Our industrial corporate world developed in an era in which no serious attempt was made to answer Marglin's question: ". . . is alienating work the price we must pay for material prosperity?"[34] This question is relevant in a plantation economy, or in migrant labor camps. It is not relevant in a system of proprietary businesses or family farms. Is alienation less likely to emerge in corporation farming? Or is it likely to be intensified by constant exposure to a capital structure that was once owned by the workers?

It is difficult for a worker in a textile mill, a steel mill, an oil refinery, or an airline to imagine himself the owner of the capital with which he works. This identification is much more plausible in agriculture. A corporate farm structure in the last quarter of the Twentieth Century must struggle with the alienation question. It seems likely that the solution will not involve corporate forms we know in industry. This conclusion is reinforced by the high fraction of total farm capital that must be invested in land and livestock. As long as price support programs, tax policy and depreciation rules favor non-farm investors, we can expect a derived demand for corporations in farming to facilitate exploitation of these advantages. But if land must be held for production only and not for speculation, the capital costs may be too high for non-family types of farming corporations. They cannot afford to immobilize capital in a factor of production that will be carried by family farmers at rates of return on capital that large corporations find intolerable.

One result is a shift to types of contract farming in which land and working capital remain largely in the hands of family-size farmers. Large

corporate processing firms can contribute to the control of product quality and standardization but many have found land ownership and direct farm operation unrewarding. One reason is the decline in rate of growth in agricultural efficiency in the late 1960's. From 1954 to 1960 agricultural output per unit of input increased at an annual rate of 3.0 per cent. From 1965 to 1970 it was virtually zero.[35/] When the recent corporate farm boom reached its peak in the late 1960's the major impact of the post-World War II surge in efficiency of resource use in agriculture had been dissipated.

Farm corporations that began operation after 1965 were too late to capture big operating gains from rising efficiency, and just in time to encounter inflated land costs. Add to this the costs of pollution control on big farms, plus the success of Cesar Chavez in organizing farm labor in California and Florida, and it is not surprising to find a flight out of farming by corporations that a few years earlier were extolling a new farming era.[36/]

Miscalculation of management problems in agriculture played a major role in this corporate retreat. The "bottom line" balance sheet results can be captured in two quotations:

From Barron's National and Financial Weekly, August 5, 1968:

> "Really, what we are doing is nothing more than applying good business techniques and practices to agriculture---which heretofore have been absent"
>
> J.R. Dominick II
> President, CBK Industries, Inc.
>
> "An example is CBK Industries, which expanded a pre-World War I Florida phosphate-mining operation into a conglomerate ranging from asphalt and apparel-making to movie distribution...In June

(1968) it exchanged the film distribution outfit for 10,000 acres of farmland in southern Texas...By this year (1968) it expects to have 50,000 acres leased or owned outright. Owing to costs incurred in the change-over, CBK now enjoys a tax-loss carry forward of about $4.1 million".

From The Wall Street Journal, December 15, 1971

"CBK Agronomics, Inc. agreed to acquire two coal companies for about $5 million cash... CBK Agronomics has an operating tax-loss carry forward of $19.8 million that can be used for five years to offset taxes on coal earnings... The company sustained large losses from its farming operations and disposed of them last year."

Farming corporations can play a useful role in agriculture, and particularly for family businesses that in an earlier day would have been loosely described as partnerships. It is difficult to justify most types of large corporations in farming by conventional economic tests of efficiency in resource use and management. Those we now have are largely a consequence of farm price support and tax policies, which were aimed at family farmers and badly missed the target.

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1/ Michael L. Olsen, "Corporate Farming in the Northwest, The Puget's Sound Agricultural Company", Idaho Yesterdays, Vol. 14, No. 1, Spring 1970, pp. 18-23.

2/ Ibid., p. 23.

3/ Buis T. Inman and William H. Fippin, Farm Land Ownership in the United States, U.S. Dept. of Agriculture, Miscellaneous Publication No. 699, December 1949, Appendix Table 35.

4/ U.S. Department of Agriculture, Corporations with Farming Operations, ERS, Agricultural Economics Report No. 209, June 1971.

5/ For Wisconsin, see Richard D. Rodefeld, "The Current Status of 'Corporate' Farm Research", Hearings, Corporate Secrecy: Agribusiness, Subcommittee on Monopoly, U.S. Senate Select Committee on Small Business, Washington, D.C., March 1, 1972; for Iowa, personal communication from Prof. Neil E. Harl, Department of Economics, Iowa State University, Ames, Iowa, Jan. 19, 1972.

6/ Bureau of the Census, 1969 Census of Agriculture, County Data, United States, May 1972.

7/ U.S. Department of Agriculture, Farm and Off-Farm Income Reported on Federal Tax Returns, ERS-383, August 1968, Table 14, p. 31.

8/ U.S. Dept. of Agriculture, Corporations..., Table 9, p. 15.

9/ J.S. Bird, "Some Experiences in Industrialized Farming", Agricultural Engineering Journal, February, 1930, pp. 51-54, as expanded and reprinted by the Wheat Farming Corporation.

10/ Kansas Statues Annotated, paras. 17-202a, 2701 (1964). An amendment in 1965 added sorghum to the prohibited list, but permitted "small business" corporations to produce the proscribed products if there were no more than 10 shareholders, all were Kansas residents, and they controiled no more than 5,000 acres. Kansas Session Laws, Chap. 149, 1965. Apart from dairying, corporation farms in Kansas have never been restricted from engaging in other livestock enterprises. North Dakota is the only state that has a statutory prohibition against corporation farming of all kinds.

11/ For an account of large-scale farming experiments at the dawn of mechanization see Hiram M. Drache, The Day of the Bonanza, (Fargo, North Dakota Institute for Regional Studies, 1964).

12/ U.S. Dept. of Agriculture, Food Grain Statistics, ERS, Statistical Bulletin No. 423, April 1968, p. 21.

13/ U.S. Dept. of Agriculture, Current Developments in the Farm Real Estate Market, CD-34, March 1953, CD-43, March 1956; and subsequent.

14/ Donald A. Nichols, "Land and Economic Growth", American Economic Review, Vol. LX, No. 3, June 1970, p. 339.

15/ For a discussion of the significance of the Subchapter S or "tax-option" corporation for agriculture, see Neil E. Harl, "Resource Allocation and Capital Accumulation in Corporations Under Subchapter S of the Internal Revenue Code", Farm Corporations and their Income Tax Treatment, U.S. Dept. of Agriculture, Economic Research Service, March 1970, pp. 124-165.

16/ Revenue Act of 1951, Section 324. This was later consolidated as Section 1231 of the Internal Revenue Code of 1954. In 1969 the holding period was increased from 12 to 24 months.

17/ For a discussion of litigation under this act see Ben F. McClinton, "Capitalizing Raising Costs For All Section 1231 Animals: United States vs. Catto", The Hastings Law Journal, Vol. 19, No. 2, Jan. 1968, pp. 462-475. For examples of economic and fiscal consequences, see Virden L. Harrison and W. Fred Woods, Farm and Nonfarm Investment in Commercial Beef Breeding Herds: Incentives and Consequences of the Tax Law, USDA, ERS-497, April 1972; Hoy F. Carman, "Tax Shelters in Agriculture: An Example For Beef Breeding Herds", American Journal of Agricultural Economics, Vol. 50, No. 5, December 1968, pp. 1591-1595.

18/ USDA, Corporations..., Appendix Table 7, p. 38.

19/ J. Patrick Madden and Earl J. Partenheimer, "Evidence of Economies and Diseconomies of Farm Size," Size, Structure and Future of Farms, A. Gordon Ball and Earl O. Heady, Eds. (Ames, Iowa State University Press, 1972), pp. 100-104. Their conclusion is that "Problems of coordination and uncertainty may place a practical upper limit on farm enlargement". (p. 106).

20/ In a study nearing completion of large farms in Iowa, Minnesota, the Dakotas and Montana, Drache found that approximately 80 of 125 farms surveyed had one or more corporations in their farm structure. Two of the farm corporations were held by absentee owners. These were the two farms in the survey experiencing the most severe management and coordination problems. Hiram Drache, Dept. of History, Concordia College, Moorhead, Minnesota, personal communication, Aug. 21, 1972.

21/ Kenneth R. Krause and Leonard R. Kyle, "Economic Factors Underlying the Incidence of Large Farming Units: The Current Situation and Probable Trends," American Journal of Agricultural Economics, Vol. 52, No. 5, Dec. 1970, p. 753.

22/ For a detailed review see J. Dean Morgan, "Sections 175 and 182: Farmers' Deductions for Capital Improvements to Land", The Hastings Law Journal, Vol. 19, No. 2, January 1968, pp. 446-461.

23/ Jonathan S. Tobey, "Milestones of Progress in Agriculture - Now to the 80s", speech at the American Forage and Grasslands National Conference, Chicago, Illinois, February 4, 1969.

24/ Harold L. Oppenheimer, "The Case for the Urban Investor", The Farm Quarterly, Spring Planning Issue, 1969. The Oppenheimer firm of Kansas City, Missouri has been one of the most active brokers in promoting investments in beef-cattle herds by non-farm investors. Its best publicized clients include Jack Benny and Governor Ronald Reagan of California. See James Wrightson, "Reagan Tax Angle, Cattle Firm Offers Benefits", The Sacramento Bee, June 13, 1971.

25/ Charles Davenport, "A Bountiful Tax Harvest", Texas Law Review, Vol. 48, No. 1, December 1969, p. 5.

26/ John E. Lee, Jr., "The Money Market - Is It Adequate for the Needs of Today's Agriculture?", Agricultural Finance Review, USDA-ERS, Vol. 32, August 1971, pp. 2-3.

27/ The Farm Credit System in the 70's, Report of the Commission on Agricultural Credit, Farm Credit Administration, Washington D.C., March 1970, p. 5.

28/ Agricultural Finance Review, USDA-ERS, Vol. 32 Supplement, January 1972, Table 7, p. 11.

29/ Dana L. Thomas, "Corporate Sodbusters", Barron's National and Financial Weekly, August 5, 1968, p.3.

30/ In arguing for a policy change, Davenport points out that existing tax laws foster two inequitable advantages:

> "(1) Those farm taxpayers that have no other income are at a substantial disadvantage to those who have large outside income. (2) There is a substantial unfair tax advantage as between those who have farm investments and those who do not.... Those making farm investments have a preferential rate of tax which not only shields the farm income from tax but helps to shelter their income from other sources. This is unfair."

Charles Davenport, Professor, School of Law, University of California, Davis. Statement before the Subcommittee on Migratory Labor, Senate Committee on Labor and Public Welfare, Hearing, San Francisco, California, Jan. 11, 1972.

31/ A.D. Chandler and L. Galambos, "The Development of Large-Scale Economic Organizations in Modern America", Journal of Economic History, Vol. XXX, No. 1, March 1970, p. 204.

32/ Forest Goetsch, "More Corporate Farming in the Future", Doane's Agricultural Digest, June 1970, p. 34.

33/ Chandler and Galambos, p. 205.

34/ Stephen Marglin, "What Do Bosses Do?", Discussion Paper No. 222, Harvard University, Institute of Economic Research, Nov. 1971 (mimeo), p. 1.

35/ U.S. Department of Agriculture, Changes in Farm Production and Efficiency, ERS, Statistical Bulletin No. 233, June 1972, Table 27, p. 31.

36/ Dan Cordtz, "Corporate Farming - A Tough Row to Hoe", Fortune, August 1972, pp. 134 ff.