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# COMPETITIVE-STRUCTURE POLICIES FOR COMMERCIAL AGRICULTURE

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We need not be overawed by the size of the problem of a competitive-structure policy for commercial agriculture. Nor dare we retreat into some nice esoteric shelter. We are extension economists, and we retreat before nothing. For we know that decisions affecting the future of agriculture are going to be made—by someone, on some basis or other; and if we are to fulfill our mission we must try, if not to maximize the knowledge available to decision makers, then to minimize the ignorance.

However, we need to be aware of some pitfalls. The economic world is infinite and man's understanding is finite. Because of this overwhelming fact, all economic thought rests on simplification. The nature of the economic world requires abstracting from the whole of reality in order to accommodate the capacity of the human brain. Hence, we may oversimplify. A second danger is that we each tend to build our own analytical model to our own taste and then consider which model is best. Another pitfall can be to focus on a few issues and take all others for granted. Still another is to attach value judgments of high emotive content to the language of the structure for agriculture and thus impede rational analysis.

## SINGLENESS OF GOAL

My first category of illustrations is what I call monotheism concerning goals for our agricultural structure. We have the efficiency-above-all school; it seems to assume we are on the brink of destitution and physical efficiency must be the overriding goal. We have the man-on-the-land school, and it has two branches, one based on socio-cultural values in the rural environment and the other on a more pragmatic keep-'em-out-of-the-cities point of view. Another school bases all on freedom from government, calling for "a market system and not a government system" in disregard of the fact that our price programs to date have notably worked through the market.

May I point out here that although I am perhaps being slightly caustic my criticism applies only to the practice of reducing everything to a single issue. Each of these goals has merit—efficiency, rural environment, preserving self-regulating aspects of a market system. My target is solely the oversimplification, the single-goal feature.

Another category basically defends current trends, which is to say, existing centers of power, and its technique is to deride or even ridicule. Have you heard slogans such as, "Modern technology dooms the family farm," or as another version that capital requirements do the same thing? Then there are such lines as, "We didn't preserve the family grocer, did we?" Closely related are words denouncing those of us who are concerned for our subject for "indulging in nostalgia" or for being, the most trenchant of all single words, almost an epithet, "fundamentalists."

We cannot omit the hand wringing and mind-shackling philosophy, "I don't like the way things are going but I don't want to put any restriction on anyone's right to invest a dollar as he sees fit." This is the creed of capitalism of the crudest and greediest kind, long since abandoned (in its absolute sense) in most of the economy.

And then to illustrate some other lines: "You can't repeal the law of supply and demand," or that granddaddy of all tranquilizing bromides, "The really modern, efficient family farmer will be able to survive." This last is an inversion: it takes the answer we want and makes it our premise.

#### DO OUR INSTITUTIONS SELF-GENERATE?

Surely one basic proposition underlies our discussion. If there is any point in even considering our subject, we must accept the thesis that James Shaffer built into an excellent article published in the May 1969 *American Journal of Agricultural Economics*. This thesis is that "institutional innovation" is a "necessary activity" and that it is properly a part of our obligation as a democratic nation to organize our institutions "to direct the system to achieve desired goals rather than accept whatever pattern of organization evolves." In other words, we cannot assume that an economic system conforming to our goals will emerge automatically. Economic institutions do not come about as a natural process but are man-made through custom, convention, and law; and if we want those institutions to meet our goals, we must tool them to that end. And like Biblical injunctions, there is a warning too: the penalty for failing to achieve institutional change through wisely directed evolution is to have it come about in sudden upheaval, that is, violent revolution.

Whether tagged as fundamentalism or not, we are truly dealing with fundamentals. How, indeed, shall our common resources for producing, processing, and distributing our food and fiber be organized? Particularly, what shall be the institutions for ownership and management of that unique and scarce resource, the land, and what form of relationship shall prevail for those who till it?

Our national policy has long had two prongs. One is to assure an

abundance of production, so that no Irish or German famine such as sent our ancestors scurrying to our hemisphere would be repeated. The other looks to the status of the man on the land. Status was first wrapped up in provisions for fee simple ownership and then in legalized squatting that was eventually built into the Homestead Act. As the farm economy became more commercial, it was seen that not land institutions alone but market institutions as well had much to do with the farmer's destiny. To this day, we have a two-way choice in how we look at competitive-structure policies for commercial agriculture: Do we consider mainly how land is held and the farmer's relation to it, or do we think more about income protection as such?

There is no denying the appeal that land ownership has for the farmer, and it deserves to be treated with respect. On the other hand, there is evidence that *some* farmers are less concerned for that traditional badge of status and security than for other means to protect their opportunities and income. According to this second attitude, farmers do not mind being tenants or entering into contracts provided they are assured of adequate income from doing so. Some of us read into this proviso a veiled warning of nonsubmissiveness. We suspect that if farmers who elect other sources of security do not attain it, they will be quick to join in defensive action such as forming bargaining fronts. Or to switch momentarily to a popular phraseology, if we adopt a more industrial structure of agriculture, less tied to land, we can expect to see industrial type countermovements pop up. They could be nasty sometimes.

### INSTITUTIONS OF LANDHOLDING, MODERN STYLE

So long as food is produced from land, it will be a matter of national importance how land is held and used. National goals for land begin with insuring against its mistreatment—the conservation goal. They extend to making certain that the land resource, like any other resource that is fixed for an appreciable length of time, be employed productively and in a way that equitably distributes income. In other words, until we produce all our food in chemical retorts we will re-echo an ancient concern for the potentially exploitive monopoly power of land ownership. That danger is just as real today as it ever was. In view of trends toward conglomerate organization of the industrial economy, already branching into land ownership, it may also be imminent.

It is a classic principle that landholding generates an unearned income. In an expanding economy such an income can mount steadily. It follows that if landholding moves out of farmers' hands into those of a separate class of the population, that class will have the marks of a rentier class—which has been antagonistic to democratically defined values and goals

wherever it has existed. In my judgment, the greatest single merit of a small landholder agriculture is that the whole issue of unearned income is almost washed out. The amount of residual unearned increment received by each person is so small as to be socially inconsequential. Moreover, the family farmer who owns his land not only combines his returns to land and labor but apparently bids some of his labor income into the paying price of land (in exchange for status and security).

But the income distribution issue in landholding systems does not end there. For it has been national economic policy for decades not to permit distribution of income in the U.S. economy to be governed solely by control over factors of production. On the one hand, high incomes resulting from favorable situations are cut back by means of a graduated income tax. On the other, various policies affect income distribution directly. As an example of the latter, measures to bolster farm incomes by managing the land resource (i.e., land retirement) tend to funnel the added income solely to landholders. Some provisions in income tax laws and regulations have materially affected incentives for landholding—some would say, devastatingly. Allegedly, they make it more attractive for nonfarm interests to buy into farming. Currently it is sometimes more profitable to farm income tax rules than land.

#### OTHER AGRICULTURAL RESOURCES

Land is only one of the four factors of production. But it has long been quick to form protective unions—though it is now doing so in some rules for the labor element in farming. Not even nonfarm hired labor has been quick to form protective unions—though it is now doing so in some places.

On the whole, national policy has been to facilitate and even subsidize the flow of labor, capital, and management into farming. Hence, the policy issue concerns not whether the labor component in farm production has been kept too restricted but whether it has been so plentiful as to depreciate its price in the market.

And yet, certain changes in the design of farm programs in recent years at least lean toward giving some benefit to labor instead of giving it all to land. In my view the greater use of direct parity payments does this. Moreover, quantity quotas, now in force for flue-cured tobacco but occasionally proposed for other crops, offer a good chance of dividing benefits among the several factors of production instead of giving them all to land. So far as federal marketing orders regulate quantity of product marketed, the benefit is shared among factors of production and not returned exclusively to land.

## KEEPING THE MACHINE SYNCHRONIZED

The last few pages have dealt with one kind of fundamental, the control over resources used in farming.

Now we will consider the other side of the coin: how the whole production and distribution mechanism is to be directed.

The modern economy rests on division of labor—division by process, by firm, by geographic region. The finer the division, the more complicated is the process by which the separate activities are linked together, coordinated, synchronized. To consider how that directional control is to be achieved is a good expository device for reviewing competitive-structure questions.

Traditionally, the control system in agriculture has been that of market exchange. The basis of exchange was monetary price. A large part of the system was based on physical assembly of products which was both a step in physical distribution and a means to arrive at price. Private and public services of many kinds have been provided to keep the mechanism running smoothly.

The system extended through all stages from the farm to the consumer; it was not confined to the terminal points. Being price-oriented, it minimized nonprice activity. In fact, a true market price system permits informational advertising but by definition excludes promotion as such.

The market exchange system based on commodity price has many merits. It also has some weaknesses. Its great strength is its impersonality, its freedom from centers of power. It is a decentralized system in which no single agent wields power over another. If it works well it achieves equity—no person, however small and weak, is excluded, nor is he discriminated against.

The weakness of the market system is not usually considered to be on the distributive side—it gets a product, once produced, through the channels pretty well—but in the directional control mechanism. Price signals in production and marketing, say the critics, do not regulate production as well as modern markets require. This charge is hard to refute. Yet there are at least two caveats: (1) we have not tried as hard as we might; (2) it is not that the price system has suddenly proved so faulty, but that so much more is expected of it. In particular, the pressure has become intense to achieve more precision in directional control than formerly; and as industrial merchandising techniques have spread to farm products and foods, less emphasis is placed on commodity price and more is focused on non-price devices.

By way of illustration, a price-oriented market exchange system has

been nibbled into and occasionally devoured by such developments as: (1) floor (support) prices; (2) vertical integration, and now conglomerate merger, among *market* firms; (3) vertical integration into farming, by means of resource ownership or production and marketing contracts; (4) consignment marketing; (5) formula pricing; (6) merchandising by non-price competitive methods in partial replacement of price; (7) market order pricing in fluid milk; (8) bargained pricing.

### PRESSURES AT WORK

Most of my remarks thus far have been descriptive and conceptual but have not touched on the nature of the dynamic forces that are at work. By no stretch of the imagination should or can those forces be disregarded. Our object, as in all policy, is to channel forces and direct their outcome. It is not to bow supinely before them, nor to ignore them, nor, least of all, totally to block them.

In my judgment many of the forces arise not within agriculture but outside it. My list will include both.

Perhaps most familiar is the advance in technology. It is also hoary with age and overrated. Our generation enjoys no special status where technological change is concerned. The steel moldboard plow was more revolutionary than the tractor, and the reaper more than the combine.

In my jargon technology is *how-to-do-it*, and though definitionally separate it works hand in glove with the development and use of more nonfarm inputs in farming. The structural meaning of advancing technology is that more scientific knowledge is now required of the farmer, which raises questions of how to provide that knowledge and whether the farmer can continue to be a generalist. Alongside these policy questions are the implications of greater use of purchased inputs in farming, which put more emphasis on the market or nonmarket system by which those inputs, plus accompanying finance capital, are required.

I rate various institutional changes as more important than technology as such. One is the conversion of the farm product marketing system to industrial type operations that demand a regular and systematic supply of raw products. This comes hard in farming. More exact control over the farm economy is now required.

I repeat for emphasis, the marketing system has also turned to merchandising instead of solely price-controlled marketing. Merchandising techniques rest on differentiation of product and the accompanying promotion and nonprice methods of competition. Much of the differentiation comes from processing, but not all; and to the extent market firms want to begin with a distinctive product obtained from the farm, they run

counter to the traditional principle that farms should turn out standard products.

In a word, what this means is that market firms find it advantageous to bring farm sources directly under their control for purposes of engaging in merchandising strategy. This is a powerful force. It helps to explain the call for "specification production" by farmers and accounts for some of the market-firm pressure for vertical integration into farming.

Farm supply firms are interested in integrating into farming for a matching yet different reason. They want a regular and dependable outlet for *their* products; and they want to maintain it at minimum cost. I am convinced that the biggest cause for contractual integration in broilers was feed mills' wish to sew up their feed markets without having to hire salesmen and buy advertising—and they wanted least of all to engage in price cutting wars with competitors.

These brief remarks do not begin to do justice to the various kinds of pressures being brought to bear to alter the time-honored market exchange form of relationship between farming and its supplying and outlet markets. In particular I have not touched on size and power of the old fashioned kind—old but getting a new style in the conglomerate movement. We do not understand clearly all that is at work but some of us suspect that part of the motivation is pursuit of power for its own sake, and size for its own sake, and fiscal inflation protection and other fiduciary objectives also for their own sake. But perhaps these cursory remarks will suffice to establish the point that many of the forces for dynamic change in the competitive structure of agriculture originate not within agriculture but outside it.

Yet one word more, and it relates to the farmer himself. He is not a pawn in the game. He is torn by conflicting personal goals, some of which have taken on new motive force. The farmer has goals of status and income stability; he expects to drive a sleek automobile and wear fashionable clothes and send his kids to college. The biggest single outcome of a generation of farm price and income programs may be that the farmer, who once thought his economic woes were the visitation of an unjust Nature or a just God, is now convinced that man-made economic systems have much to do with his economic welfare. Let no one discount the strength of this element among forces-at-work.

### POSSIBLE POLICY DIRECTIONS

It is tempting to continue with a sketch of potential what-to-do-about-it's. To do so would transgress on the topics of Dr. Farris and Dr. Raup. But description is not wholly independent of prescription; in medicine or in economics, we report only those data that have diagnostic or therapeutic



value. My choice of language was intended to identify the problem to make it easier to distinguish between: (1) policies to alter the basic control over economic resources (factors of production), (2) policies to alter the way the system works (Bain's "performance") through regulation and surveillance, and (3) policies to redistribute the product. The last is what Professor Kenneth Boulding calls the grant economy; it is what we seem to be moving toward. He estimates that 13 percent of national income is now private and public transfers.

### CONCLUDING OBSERVATIONS

Competitive-structure policies—basic policies and not superficial actions such as retiring a little more land or increasing (or reducing) a support price—are at the heart of what is troubling agriculture now and will continue to trouble agriculture for some time to come. It is number one in farm policy issues, in my opinion.

My remarks have perhaps not stressed enough that structural questions in agriculture are not isolated but an integral part of deeply troubling issues of what kind of an economy is emerging in these United States of America and what kind we want. Without infringing on Professor Raup but to clinch my point, whether or not farming goes corporate may depend on whether all industry goes toward 200-firm conglomerates, as some persons say is our destiny.

Institutions, not technology, characterize an economic system. When we begin with fundamentals, we begin with asking how the several factors of production are held and organized. In agriculture land is of first concern, and it will continue so until such time as we fabricate our food from natural gas and petroleum. Because land as a fixed resource has the capacity to be residual claimant on income, I chose to highlight the income distribution consequences of various landholding institutions.

Other factors of production enter agriculture rather fluidly. However, the role and status of labor in agriculture is inseparable from the individual proprietorship and market exchange systems that have prevailed in our traditional agriculture. If we change our landholding institutions, reciprocal changes can be expected in the institutions affecting the man on the land. At the least, the farmer who no longer can trust the land to serve as his Linus's blanket of security will abandon his vaunted sense of independence and will turn to substitute measures, usually group action of one kind or another.

Structural forces affecting the traditional market system are numerous and some are powerful. These alone, apart from form of landholding, could readily obliterate farming as a unique sector of the economy.

Whether this is desirable or not is another matter. Although we must ultimately introduce value systems, the first step is to describe the situation honestly and above all to deny such shibboleths as that “nothing really is happening” or “it can’t happen here.”

Opening remarks in this paper noted the choices between systems of analysis. Thereupon one or two systems were embraced for this paper. Many others are necessarily omitted. Let me mention two, possibly as directions to be pursued another time. The first concerns how to reconcile private interest and social interest, throughout the hierarchy of aggregated groups. This goal may let us find the best way of doing something that should not be done at all, or maximize something that should not be maximized, or be efficient in the production of an undesirable output.

A second approach, heretofore touched on lightly, is that of values and goals. I have noted that goals for agricultural policy are many, mixed, and partly conflicting and that it is a serious error to accord undue weight to a single one. But I want to mention two aspects of goals: the question of *whose* goals, and ends versus means in goals.

Although at the highest level of generalization we all share certain national goals, at lower levels we fight like felines and canines. In this regard one question bothers me: how much weight should be accorded the goals of the people of agriculture themselves—the men on the land? An awful lot of opinion giving has had overtones of pronouncements from on high. This is true of the advice offered freely by agricultural economists; maybe we, too, like to play the role of an elite corps dispensing wisdom. William Swank of the Ohio Farm Bureau once chided agricultural economists for goading the agribusiness lions into swallowing the farm-folk Christians. Do the aspirations of farm people carry any weight? Ought they? Yet I will admit that farm groups often seem dead set on keeping things as they are, an attitude that dooms them to disappointment.

With respect to ends and means in goals, in a democracy we are concerned not only for common values as they affect ends but also as they bear on means for achieving them. That is, we are properly circumspect about the measures we employ to arrive at certain destinations for our economy and our society.

Therein lies a contradiction and an excuse for a massive dose of Calvinism. As to *method*, it is always attractive to accept *laissez faire* and we still, for all our denials, are steeped in it. But as to *outcome* we are by no means willing to live with all the consequences of allowing existing institutional and power structures to hold sway unmolested. May I propose that if we as a nation are to be heedful of our destiny we must also be mindful of policies that shape it.

Furthermore, failing to plan and guide our economic institutions but dissatisfied with consequences, we often resort to plugging and patching and generally trying to offset the results we were not willing to forestall. I would argue that this is not the highest level of performance and one that, in considering competitive-structure policies for U.S. agriculture, we would do well to avoid.