ALTERNATIVE COORDINATION POLICIES FOR COMMERCIAL AGRICULTURE

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It has become clear in recent years that problems of commercial agriculture are different from problems of low-income farmers, who have inadequate land and capital resources. Within the commercial sector, two further distinctions are appearing between problems of: (1) matching overall supply and demand so that farm people realize satisfactory prices and incomes; and (2) guiding the course of organization and competition within agriculture, and between agriculture and nonfarm sectors, in order to harmonize the desires of farmers and agribusiness interests with the basic values of society.

The problem of matching aggregate supply and demand to achieve satisfactory farm income has been analyzed in considerable depth, and the potential costs and benefits of alternative price and income policies have become fairly well defined. The changing organization of agriculture, on the other hand, has received much less attention. Recently, the speed and pervasiveness of structural changes have intensified organizational issues. Farmer concerns have begun to encompass not only questions of income and market power, but also whether family farm agriculture will be supplanted by other patterns of production. Our concern here is with these organizational issues.

A crucial organizational issue is managerial independence of farmers and their role and status relative to other groups. Alternative methods of coordinating production and marketing differ significantly in the concentration and location of key entrepreneurial functions. A shift of these functions out of the hands of farmers would fundamentally change the organization of agriculture in ways not fully obvious from declining farm numbers and increasing farm sizes.

GENERAL IMPLICATIONS OF ORGANIZATIONAL CHANGE

Change in organization also has implications beyond agriculture. The family farm has been warmly praised for its contribution to morality and democracy in American society. Although superiority in these respects has not been clearly demonstrated, family farm agriculture may well have other merits. These bear on the fundamental issue of the distribution of power in the economy.

The most forceful argument for strengthening the family farm, defined not only in terms of the relative amount of family labor employed, but particularly to include a reasonable degree of managerial independence, is to support decentralized decision making and diffused economic power in agricultural organization. The social benefits, which come naturally from a structure in which buyers and sellers are sufficiently numerous and vigorous to provide for competitive checks and balances at all stages in production and marketing systems, are generally well known. On the other hand, both economic theory and historical experience raise some questions about the possible effects of concentrated power and of certain organizational tendencies in agriculture on farmers, farm communities, and society.

With regard to efficiency, in most circumstances it is not clear that alternative systems of production would be more efficient than family farm agriculture. While many farms are too small to achieve low unit costs of production, neither great size nor particular types of integrated structures seem necessary for efficiency or progress.

SIGNIFICANT ASPECTS OF THE MODERN FOOD AND FIBER ECONOMY

In order to analyze organizational alternatives, five fundamental characteristics of the modern food and fiber economy must be taken into account.

1. Gains From Coordination

Economic and technological forces are bringing strong pressures to integrate, in one way or another, the functions and processes involved in turning out goods and services for the consuming market. Closer coordination makes more exacting demands on all participants in vertically organized systems and moves decision making toward one point in the channel, which, in turn, tends to become the single profit center.

2. Size and Organization of Firms With Whom Farmers Deal

The difference between the industrial organization, that is, size, concentration, integration, and diversification, of nonfarm firms which deal with farmers and that of farmers is often of critical significance. Suppliers and processors may have a substantially wider range of behavioral options open to them than are available to farmers.

3. Market Orientation

The modern selling environment in the U.S. is one in which most consumers are busy and have incomes that will buy more than bare necessities of life. Highly processed and conveniently packaged items find increasing acceptance. This setting lends itself to the management of demand by manufacturers and distributors. They are in an advantageous position to anticipate broad changes in consumption patterns, to develop particular products which will fit into general trends in life styles, then to persuade people to buy what they produce by using modern advertising and promotion techniques. Although many nonfood items lend themselves more completely to persuasion, the phenomenon is of growing importance in the food industry.

4. The Farm as a Producer of Raw Material

The undifferentiated raw materials which farmers turn out increasingly must be combined with a variety of marketing services before reaching the consumer. This means that decisions about the place and use of farm commodities in manufactured and differentiated consumer products are moving further out of farmers' hands. Where alternative inputs can be procured at lower cost, buyers can be expected to switch to the most economical source. The lowest cost source increasingly is found outside of agriculture.

5. Atomistic Structure of Production

Farm producing units continue to be numerous and relatively small. Even though the number of farms has declined rapidly and the proportion in large size classes has increased substantially, the evidence thus far does not suggest a size distribution of farms in the foreseeable future in which a significant share of output of most commodities will be concentrated in only a few large units.

ORGANIZATION ALTERNATIVES

The idea is generally rejected that physical and technological forces are so specific in their effects that they predetermine the course of organizational change regardless of the environmental setting in which they appear. Business and agriculture operate within a particular legal and economic environment which, in turn, influences industry structures and behavior patterns through the kinds of social norms, rules, institutional constraints, and profit incentives which the environment provides. Changes in policies can alter the environment and affect the relative advantage of one organizational pattern as compared with another. High levels of efficiency and progressiveness can be achieved with a variety of organizational patterns, given appropriate environmental incentives. The challenge is to pursue strategies toward organizational change which not only will allow potential physical and technological gains to be achieved, but also will be most consistent with the social and economic values of society.

The course of organizational change in agriculture can probably be guided, to a varying extent, in any of four general directions. The directions are distinguished from each other on the basis of the location of power over decision making and influence on organization and operation of the system. The alternatives are toward: (1) more atomistic industry structures and open competitive markets with diffusion of powers; (2) more active government participation in production, marketing, pricing, and distribution of incomes, with significant power in the hands of government; (3) control of the agricultural production-marketing complex by nonfarm firms; and (4) control of the agricultural production-marketing complex by farmers and their organizations.

In practice, some combination of the four characteristics will prevail for some time. The prevalence of each will vary between commodities, areas, and other characteristics, including public policies.

1. Open Competitive Markets

Improved coordination through expanded use of open competitive markets certainly seems possible conceptually, and this type of coordination would seem highly consistent with family farm agriculture. Market exchange processes could be made to work more effectively in their classical role of allocating resources, transferring ownership, and distributing income. Some markets might need to be reconstructed to increase the number of buyers of farm products and sellers of farm supplies. Where vertical integration and contract farming have substantial advantages, farmers could be assured genuine choices between alternative integrating or contracting firms.

Facilitating services such as market news, grading and standardization programs, and information about prospective market supplies could be expanded so that the large number of buyers and sellers participating in rejuvenated open markets could do so intelligently and on equal bases with each other. Information about contract terms and other potential successors of ordinary spot prices could be gathered and made available. Tax provisions could be altered to enable independent farmers to compete fairly on the basis of their productivity and efficiency. Regulatory agencies, such as the Federal Trade Commission and the Packers and Stockyards Administration, could be supported with adequate resources to guard against competitive abuses.

While several of these activities could independently enhance competitive behavior, effective implementation of this total approach would probably arouse considerable opposition. It would mean establishing and supporting a variety of service programs, some of which would be very costly. Certain activities would be strongly resisted by processors, distributors, and farm suppliers, and possibly others would be resisted by farmers. It would mean reversing the long time decline in many open markets and prescribing for the farm economy what does not prevail in the nonfarm economy—and which would be even more difficult to implement in the more industrialized sectors.

2. Direct Government Participation in Production and Marketing

Government could enter more directly into the production and marketing of agricultural commodities in order to facilitate efficiency and progress, improve coordination, stimulate competition, and provide the kinds of services which would enable firms in the private sector, including independent family farms, more fully to achieve their potential. Organizations like the Commodity Credit Corporation could be established to engage in a wide range of activities. These could include the production, distribution, and sale of production inputs; the ownership and leasing of land and expensive production machinery; and the processing and marketing of farm products.

A government corporation could be set up to operate food stores in the ghettos, to implement an exchange system employing advanced computer and communication techniques, or to develop new products for consumer markets. Government agencies could establish new marketing arrangements, and perform a variety of facilitating, educational, and service functions. As new ventures succeed, some might appropriately be transferred to private enterprise. A wide variety of experimental and pilot ventures could be initiated and discontinued in response to changing needs.

Strong emphasis on this alternative might be alleged to be inconsistent with our historical emphasis on private enterprise. Yet its judicious use could improve the social performance of private enterprise by accomplishing functions which private business firms would not be well equipped nor have the incentive to undertake but which would complement activities in the private sector.

3. Control of the Agricultural Production-Marketing Complex by Nonfarm Firms

This alternative appears in many ways to be the direction that current policies are taking us. To the extent that demand can be managed, firms which process, market, and distribute agricultural products are in the best position to manage it. Moreover, they are likely to be particularly sensitive to the dynamics of the consumer market and to the shifting tides in foreign trade, including the possibilities for foreign market development. They are the market for raw farm commodities, and they are not bound to any particular source. They set the specifications, the quantity requirements, and the delivery conditions. They control the channel and routinize the system from the point of view of their own management objectives and profit centers. They are ever alert to possible new procurement sources, to ways of improving marketing arrangements, and to technological possibilities for removing sources of instability or market uncertainty. They seek "closure" of the system, from their point of view, and they increasingly are in a position to use technology, information, and market power to achieve it.

This means that more and more producers are finding it desirable to have a specific sales outlet in sight before making production decisions, and that contracts are replacing traditional open markets in the transfer of farm products from producer to processor and distributor. Some vertical coordination has occurred through outright ownership of land and other production equipment by nonfarm firms. In particular, nonfarm capital investment seems to have been stimulated by various tax advantages and other legal and environmental incentives.

However, it seems unlikely that integrating companies will completely take over the production of food and fiber by owning the land and capital and hiring the labor because these companies would probably be able to earn more with the resources in other uses. Relatively free entry into agriculture tends to draw enough capital and labor of farmers to keep output pressing on available markets and exerting downward pressure on commodity prices. Also, integrating companies can use contracts to shift the incidence of production costs, such as social security, workmen's compensation, and possibly union wages, which would likely come with complete ownership of land and other production resources.

4. Control of the Agricultural Production-Marketing Complex by Farmers and Their Organizations

This approach differs from the above chiefly in that more control over production and marketing would be shifted into the hands of farmers and farmer controlled organizations rather than nonfarm firms. With new knowledge, new technology, and possibly changed attitudes toward group coordination, farmers may be able to achieve goals they have not achieved in the past.

Cooperatives, through more aggressive efforts, might be able to extend their successes in areas where they have already demonstrated notable achievements, such as the purchase of farm supplies. Cooperatives might also initiate new buying and selling arrangements to give independent farmers some of the advantages of vertical coordination, yet permit farmers to retain greater managerial latitude than allowed under most contract terms.

Group supply control and bargaining could be given greater emphasis. New cost-saving innovations and vertical coordination efficiencies, which would be mutually beneficial to farmers and purchasers of farm commodities, might be obtained through organized group action. Farmer controlled organizations could integrate forward into processing and distribution and take greater initiative in new product innovation, market development, selling, and promotional activities.

New legislation to extend marketing orders or to provide other institutional devices could increase organizational flexibility and enable farmers to participate more fully in group production and marketing decisions. Provision could be made for farmers to decide what group restraints they would accept in return for being able to exert greater influence on organization and operation of vertically coordinated systems.

Other legal devices might facilitate joint efforts of farmers in production, marketing, or the acquisition and transfer of farm property. Modifications in tax policy and in laws affecting the organization and operation of cooperatives could affect managerial latitude, capital accumulation potential, and innovational options of cooperatives.

In order to extend their boundaries of control and to increase their influence on agricultural organization, farmers through their organizations will need to become more aggressive and find ways to build market positions of strength. They will then be more likely to succeed in organizing marketing channels and procedures to their convenience, in routinizing the behavior of those they deal with, and in moving the systems' profit centers into their hands.

IMPLICATIONS FOR POLICY

The organization and control of agriculture, the distribution of power, and the location of decision making in production and marketing systems can be influenced by a wide variety of policy actions. These include information and service programs, legislation affecting different types and sizes of firms and farmer organizations, establishment of government programs and institutions, and antitrust policy. The appropriate combination will depend upon the strength of the economic and technological forces at work and the desires of society with respect to agricultural organization.

If current trends continue, control of much of agricultural production and marketing will shift increasingly into the hands of nonfarm firms. Whether this tendency will be consistent with the organizational preferences of society is not altogether clear. However, an insight may be found in what appears to be the general philosophy of society toward decentralization of decision making and diffusion of power in the economy. While specific actions have not always appeared consistent, it has been our national tradition to take steps from time to time which would encourage entrepreneurial freedom, restrain excessive power, develop new institutional alternatives, encourage new competitors, or enable weak competitors to become stronger. Widening the managerial latitude of independent farmers and firming their market positions as individuals and in groups would seem to be in our national tradition toward balancing economic power in society.

In light of current tendencies in agricultural organization, and our national philosophy with respect to the distribution of power in the economy, emerging agricultural policy issues seem likely to be increasingly concerned with antitrust and regulatory activities affecting structure, behavior, and performance of vertically and conglomerately integrated firms. This also happens to be an active frontier of national economic policy, where principles and practices are in an early stage of development as compared with policy toward horizontal concentration. Evaluation of alternatives and implementation of specific policy changes will, therefore, need to proceed on an exploratory basis using the best knowledge and judgments available.

Much effort will be required during this critical period of rapid change to achieve the type of organizational development in agriculture which will be most consistent with the goals and values of the agricultural community and of society. This is the acute agricultural policy challenge facing farmers, farm leaders, and educators today.