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CONTROL BY CORPORATIONS

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Corporate farming relates to a giant corporate agriculture—to domination of agriculture by conglomerate firms that might be in *Fortune's* top 500. Thus these corporations are differentiated sharply from incorporated family farms. We could have described more intermediate size firms and they may be a more realistic possibility—at least as one stage of development. Most of the consequences are the same if we have a typical corporation with \$30 million annual farm sales rather than ten to twenty times that much.

The biggest educational problem with the corporate alternative is to establish its credibility. After all, isn't corporate agriculture a bogeyman? Let us consider five arguments for its credibility:

First, corporate farming has become too important to allow casual dismissal. Large-scale corporate farming exists. Probably about 5 to 7 percent of total farm output originates in corporate feedlots and corporate factories in the field. Another 12 percent or so is produced by vertically integrated firms. In Hawaii, eight corporations account for 73 percent of farm receipts. In California, corporate farms produce 89 percent of the melons, 62 percent of the lettuce, 46 percent of the fed cattle and even 38 percent of the cotton. Corporate farming, despite a few widely heralded corporate failures, is alive and growing.

Second, the road into the corporate state is likely to be one-way. The family farm structure depends upon an infrastructure of competitive markets, public market news, dispersed suppliers and market agencies, etc., which would be eliminated by a corporate agriculture. Thus, the road back would be very difficult because it would involve far more than selling land back in smaller tracts to would-be farmers. If this be so, then the only possible time to make policy choices about a corporate agricultural economy is before it happens.

Third, corporations need not be more efficient in order to be a competitive threat to single proprietors. There are several parts to this argument:

- a. Imagine an industry in which some corporations and some

single proprietorships start out together with the same amount of assets and the same operational efficiencies. In two or three generations, a few of the corporations will likely dominate this industry. Why? The corporate form of economic organization has a *growth* advantage because of its legal immortality and its elastic skin. The legal immortality protects against the dissipation of assets and the interruption of management which typically accompany the single proprietor's death.

The elastic skin of the corporation enables the absorption of other firms through merger and acquisition. The amazing growth of conglomerates in the past decade has retaught the lesson that the trusts first taught us seventy-five years ago. LTV is not a corporate giant because its management were geniuses in operating efficiency but rather because they were adept and aggressive in the art of acquisition and merger.

b. Investors like dependable and steadily growing earnings. Such earnings are difficult to provide in an uncertain world. Larger numbers of corporations are following a diversification strategy to average out risks. As farmers become more specialized and less able to average out, they are becoming more willing to transfer risks to those corporations willing and able to accept them. That transfer of risks is part of the story of vertical integration. Thus corporations of no greater efficiency than farmers may achieve a far greater ability to handle risk through diversification.

c. This part of the argument refers to the strictly pecuniary gains obtained by corporations which are able to buy cheaper and sell higher because of their size. The rather large savings Kyle and Krause found for large corn producers probably can be duplicated in other areas.

d. The final part of the argument about equal efficiency concerns the complementarities of vertical integration. The processing or supply corporation often enters farm production directly, or via production contracts, in order to assure better quality or timing of inputs or to assure a market for outputs. The economic gain to the integrator is in the market complementarities even though its farm production may not have any competitive edge.

The fourth argument states that, in a few commodity situations, the economies of scale are probably large enough to give an advantage to firms of a corporate size. Hi-Plains cattle feeding is a good example. In addition, many expect that someday we will see widespread feeding of hogs in custom, corporate lots. Economists are not agreed on economies of scale in cropping and the answers likely vary somewhat by crop, but the old convictions about big

diseconomies of scale are fading away. On the other hand, the article on corporate farming in the August 1972 issue of *Fortune* suggests that some corporate executives had been greatly oversold on the idea of economies of scale. A close reading of that article leads to the conclusion that the average cost curve is rather flat and that big farm firms have no magic shelter against the effects of poor management.

The fifth point supporting the credibility of the corporate farm concerns the institutional-financial environment. In a nutshell, many high income people look for tax shelters. A number of such shelters exist in agriculture—among other places—and corporations appear to be one of the better linkages for getting those dollars sheltered. It is possible for a high income investor to buy his own farm, ranch, feedlot, vineyard, or orange grove. But in the main these investors have to be sought out and sold on the idea. Corporate management seems to be doing an increasingly good job of selling. I suspect their salesmanship is due to their understanding of tax regulations and financial incentives important to the investor. As an example, investors were solicited in the July 20 *Wall Street Journal* to participate in a \$16 million limited partnership in grape growing with the participants including Firestone Rubber and the Chandler interests in Los Angeles. Perhaps the lesson is that corporate involvement in agriculture helps to pave the way for the introduction of outside tax shelter investments.