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## CONSEQUENCES FOR AGRICULTURE AND RURAL AREAS

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Ancient mythology suggests that ours is a competitive, free enterprise, market economy. Today, that myth has been largely put to rest. John Kenneth Galbraith and others have suggested that agriculture, perhaps along with artisans and numerous service industries, retains the character of market systems. Albeit they are at the tolerance of, if not outright exploitation by, the planning system. This is a loose amalgamation or large organizations for which internal and external planning play a certain role.

The planning system is alive and thriving in the U. S. economy: I hold this truth to be self-evident. However, the system is not exclusively in the hands of the government.

Clearly, large scale planning holds a central role in our modern corporate economy. It is an economy dominated by a large-scale organization—not only among manufacturing-distributing enterprises but in government agencies and among resources such as labor.

This is not to underestimate the role of government in our economic planning process. As a purchaser from and regulator of others in the planning system, it is involved in planning through the process that Galbraith has labelled “bureaucratic symbiosis”. This is the tendency for private and public organizations to find and pursue a common purpose.

Examples include the relationship between the technostuctures of the automobile industry and the department of transportation, the defense department and its suppliers, and perhaps even the agriculture department and large grain firms. Additionally, largely through a policy of “ad hocary”, the government attempts to mediate disputes between others in the planning system. Witness the Federal Trade Commission’s recent antitrust action. Presumably it was at the urging of consumer action groups, such as the Agribusiness Accountability Project, against the four largest ready-to-eat breakfast cereal firms.

To suggest that production agriculture, and by implication rural communities, are exempt from the planning system is, I believe, inaccurate and misleading. This is so even where these are characterized by small size.

Certainly under the old wheat and feed grain programs, central planning played an important role in production agriculture. Zoning and other tools for land use planning have been no strangers in most rural areas for several years. And today, much of production agriculture is well integrated into the planning system through direct cooperative investment, contract integration, and other forms of specific selling.

My thesis is simple and straightforward. The planning system is expanding its control over the U.S. economy. The reasons for this have been succinctly articulated elsewhere, starting at least with Galbraith's *American Capitalism* in 1952. It relates nicely to agriculture in the "Who Will Control U.S. Agriculture?" extension project within which much of this audience participated.

As a system, this is still some distance from a centrally planned economy. Rather, it is largely organization-large-government-large-corporation planning with sometimes formal but mostly loose, conflicting or nonexistent coordination among the various planning groups and agencies. With improved coordination, it may nonetheless be the harbinger of Otis Graham's "indicative planning".

The essence of this system is large scale planning, albeit something less than comprehensive national planning. The relevant question that I want to address is, therefore, what are the implications in large scale economic planning for American agriculture and rural communities?

Even more specifically, what are the implications for public policy? What are the policy needs of agriculture and rural areas that stem from the increasing dominance or large scale planning in our economy?

I have grouped these policy implications for purposes of clarity and organization into five categories: (1) transactions, (2) quality of living in rural areas, (3) land use and environmental quality, (4) commercial agriculture policy, and (5) education and research. I'll discuss each in turn. Infer nothing from the order in which I address them.

#### **Transactions**

This is the term I chose to describe the process by which economic decisions are made and implemented. Perhaps it reflects my biases as a market economist, educated in the tradition that allocative decisions are a function of impersonal transactions among buyers and sellers.

In a planned system, however, such decisions are administered rather than bartered. But even administered decisions are directed toward interpersonal transactions — who-gets-how-much-of-what-quality-when kinds of decisions.

An essential feature of our drift toward the planning system is a shift in transactions from market exchange to administered exchange. This trend has been increasingly recognized in agriculture by many agricultural economists. It has become increasingly troublesome to most. It is the logical accompaniment to the trend toward increased specialization and interdependence among people. This is enhanced as clear market boundaries disappear and the contribution of each individual to the value of the end product is more difficult to distinguish.

How are transactions made in an administered system? For economists steeped in the conventional wisdom of received Marshallian theory, this is an incomprehensible question. However, organization behavioralists such as Simon, Cyert, and March and more recently Neo-Marshallian economists such as Baumol, Williamson, and, of course, Galbraith give us some clear insights.

A central feature of administered systems appears to be the coalition. That is, the decision-making hierarchy appears to be a coalition of groups and/or individuals who perceive themselves to have a stake in the outcome of a particular set of administrative decisions. The coalition also has enough power to demand a voice in the decision-making process.

The composition of such coalitions, even within a given organization, varies over time with the nature of the decisions to be made and the relative power of various groups and persons. This is a readily recognizable process to those of us who observe the governance process of large universities.

This is a process of making allocative decisions characteristic to what Breimyer has labeled a "Syndicalistic economy". This is an economy within which decisions, both within organizations and among organizations, are made by syndicates of interest groups. Breimyer's conclusion, that we are moving rapidly toward a syndicalistic economy, is consistent, I believe, with my perspective on the planning system and the role of administered decision-making.

The policy implications of this changing transactions system for agriculture have been clearly articulated numerous times. I think they are pressing policy issues and their uptake by policy makers

has been slow. These deal primarily with the development of a legal-economic basis upon which agricultural producers can gain meaningful access to relevant decision-making coalitions.

By implication, this suggests that the traditional market mechanisms through which much of this interface has occurred in the historic past are not sufficient. Independent, modest sized farmers are more easily pawns of the planning system than participants in it. The cattleman's dismay with the "Yellow Sheet" prices, the broiler grower's frustration with contract terms, and the grain producer's incredulity at embargoed exports are just a few of the symptoms.

Collective action by farmers and more competitive markets have long been put forth as basic policy directions. This would allow farmers to effectively deal themselves into the planning coalition. Collective action does this by increasing farmers' power to enter and participate in the coalition; the latter by reducing the power of others to exclude farmers. The supporting rationale is, I assume, well known to this audience. But, what has resulted? The Capper-Volstead Act is under unprecedented attack. Federal-state market news service has been sharply curtailed. Only minor tinkering has occurred to the system of federal grades and standards. Anti-monopolistic scrutiny of buying practices at the post-farm level is nowhere in sight. Several attempts to pass bargaining legislation for farmers and to extend market order coverage have failed. In short, public policy aimed at agricultural transactions is bankrupt.

Renewed interest in transactions policy is, I believe, essential if production agriculture is not to be syndicalized out of the mainstream of the economic planning system. What with the continuing trend toward larger power blocks elsewhere in the system, agriculture probably stands to gain more from power-increasing policies such as marketing cooperatives, bargaining associations, and marketing boards and orders than from power-diminishing policies.

#### **Quality of Rural Life**

There are two areas of apparent policy concern pertaining to the quality of life in rural areas that I want to address. The first concerns the exodus of persons from rural areas. This is directly tied to the increasing dominance of the planning system in our economy. The second concerns the influx of people into rural areas and is less clearly tied to structural change. The latter is a relatively new phenomenon while the former is a long-standing trend.

Cal Beale and his colleagues in the USDA have brought to our attention the so-called "reverse migration" that has seen a net movement of people from metropolitan areas since about 1970. However, his data show that counties most heavily dependent upon agriculture as a source of income have continued to decline in population. The net gains in rural population actually have come in areas dominated by coasts, lakes, reservoirs, and hills.

Most of the predominantly agricultural counties are in the Great Plains states, where large scale farming and even larger scale agribusiness firms dominate. These, the latter at least, are well integrated into the planning system. Witness the large grain and milling firms such as Purina and the large livestock processors such as Iowa Beef.

Main street merchants are hardly needed to service this agriculture. So they, along with the key management talent of agribusiness, migrate out. The main street merchants move perhaps to urban fringe shopping centers or areas of rural growth and agribusiness managers to the regional centers of the planning system where they acculturate into the technostucture.

On marches the decline and fall of farming communities. The policy implications? Geographic consolidation of local services such as schools and police protection are increased. Systems of transportation and communications are expended to allow farm people continued access to a bit of urbanity.

Perhaps a bit more exciting for policy specialists are the implications of the urban-to-rural population shift. Beale's analysis shows that, since 1970, the population of non-metropolitan counties, both those adjacent to metropolitan areas and non-adjacent counties, has grown more rapidly than metropolitan population.

This trend has been particularly noticeable in the upper Great Lakes, the Ozarks and other hill country in the mid-South in addition to Florida and the Southwest. Explaining the relationship between this population shift and the planning system is a bit tenuous. The reasons for the shift are not well understood even by demographers. However, analysis of the types of people so migrating suggests some interesting possibilities.

While some of the growth in non-metropolitan population has undoubtedly resulted from recent economic uncertainty and the related slow-down in out-migration of young persons from rural areas, much of it appears to be due to more fundamental changes.

Perhaps a third of the rural immigration has been into the areas of expanding rural industrialization.

This probably reflects the direct impact of the interaction between government planners interested in rural development and corporate planners seeking a better environment. This might include subsidized investments, lower labor costs, reduced power of labor unions through geographical deconcentration of labor force, and the indirect impact of highway construction and other public policies aimed, at least, in part at population relocation.

A smaller group consists of urban drop-outs. This includes a small number of professional people such as physicians, attorneys, and teachers. They leave well-paying urban positions and practices for lower paying but slower paced roles in rural areas, plus a larger group of so-called "social drop-outs", mainly young people, that settles into a subsistence existence on a few acres of land and regular welfare checks.

Many of these are products of the post-war baby boom for whom the planning system has not been able to develop challenging and rewarding jobs. Perhaps this provides additional evidence to confirm Professor Graham's observation on Roosevelt's New Deal that planning doesn't necessarily lead to achievement of desired goals.

The largest segment of the rural in-migration appears to be retired persons—people who bring demands for products and community services but not the need for jobs and incomes. Many of these people are rich in the technical-managerial skills of the planning system, which can be an asset to rural areas if properly directed.

But the question continues to plague me—is there a connection between this retirement migration and the planning system? One plausible answer is that these people continue to be troubled by the ills of urban areas—unemployment, crime, environmental degradation, and the like. However, divorced from the planning technost-structure through retirement, they feel unable to carry through corrective measures.

Thus, they adjourn to rural areas where these social problems are less severe. Furthermore, the planning system has undoubtedly enhanced this process through the combined system of mandatory retirement and extensive provision of old-age income assurance.

One additional observation on the growth of rural areas is of

particular interest. It appears that a concomitant growth in commercial establishments is not strongly in evidence. While the reasons are not entirely clear, it probably relates to established shopping patterns of former urban residents and improved transportation facilities. Lower prices in urban areas may be another possible reason.

This suggests that the urban fringe shopping centers may be continuing to drain off income and economic growth potential from rural communities despite increased rural population.

The policy implications of these trends are probably more clearly evident to community development specialists than to me. Nevertheless, a few stand out. The first concerns the delivery of people-oriented services in rural areas.

Health care and public transportation needs shift dramatically as the rural population becomes increasingly dominated by retirement-age people. These are costly and difficult services to provide in rural areas. New, innovative approaches are needed. Expansion of other public services such as mail delivery, police and fire protection, water and sewage facilities, and welfare services is becoming increasingly important.

Financing such services appears to be a major problem, particularly given the apparent pattern of commercial development. In many cases they probably will be beyond the resources of local governments. This suggests some public revenue redistribution from urban fringe areas to rural areas, not a popular idea with many urban-oriented people, and probably points toward further geographical expansion of political sovereignty.

Lastly, rural communities are challenged to find ways to capitalize upon the technical and managerial expertise of retired persons for community management. If properly utilized that, I believe, is a resource of high economic value in rural areas.

#### **Land Use and Environmental Quality**

This is an area closely aligned with our concerns over the quality of rural life. I have chosen to discuss it under a separate heading for two reasons.

First, problems with land use and environmental quality in rural areas possibly stand as the most obvious evidence of the failure of the Galbraithian-type planning system to deal effectively with pressing social and economic problems. Second, the solutions seem to point toward more autocracy in the planning process and a



concurrent alteration in property rights.

Population growth and rapid economic development since the turn of the century have put extensive pressures on our use of open lands and the extraction of natural resources. This needs no elaboration. And, even though protection of the rights of property owners to determine to what use their property is put makes popular political rhetoric, we have a long history of tinkering with land use rights.

A coalition of local real estate speculator-developers, local governmental agencies—such as zoning commissions, conservation and drainage districts and planning boards—and corporations engaged in extraction industries, with a touch of national agricultural policy like the soil bank thrown in, has been the caretaker of much of our rural environment. This has been guided primarily by the principles of profit, minimum expense, and political consideration.

What has resulted from this coalition in the past? Feedlots spring up next to recreational areas. Strip mines eat away at residential areas and prime farm land. Buildings are constructed on flood plains. Rural residences are erected on soils not suitable for sewage disposal. On and on it goes.

This loosely syndicated planning system, even with the authority to sharply alter property rights, has not generated highly desirable results. Comprehensive land control is now emerging as a central concern. How comprehensive? Wilbur Maki of the University of Minnesota, writing recently on research priorities for rural development, concluded that “eventually the police powers heretofore confined almost totally to the municipal and county levels of government in zoning and subdivision controls may be pooled on a multi-county basis within an environmental planning area to sustain certain broad regional values in land use.”

Others suggest that even Maki's view is too narrow and that statewide or even comprehensive national planning is essential. Some states, notably Vermont, Florida, and Oregon, are moving rapidly toward statewide planning.

I suggest that this points in just one direction—toward more comprehensive land use planning, with an increasing amount of centralized coordination at the state and national level. The message for landowners is clear—more autocratic control by the planning system over property rights.

The policy implications for agriculture and rural areas are

equally straightforward. Just as new methods need be devised to enhance farmers' power to influence product transactions, so is there need to devise methods by which landholders can effectively enter the land use planning coalition. This probably means some form of institutionalized collective action.

I have less insight, however, into what form such collective action by landowners could take. One intriguing idea is some form of local landowners association that could negotiate long-term land use contracts for substantial blocks of land with the appropriate regulatory or controlling body.

These could be somewhat analogous to New York state's agricultural districts where, through long-term contracts, the state agrees to protect the farming rights of district landowners. That law allows farmland owners to organize and collectively trade-off the right to nonagricultural development. Protection from nonfarm encroachment for a specified number of years is given in return. Similar policies could be used to gain collective protection for other-than-farming use rights, such as mineral extraction, residential and commercial development, and so on.

The point to be made is that regardless of the desires of farmers and other rural landowners, present trends point toward a relative decline in their control over land use policies. Non-landowners, consumers, environmental groups, politicians at the state and national levels, and corporate planners are increasing their collective influence. Explicit policies must be devised and implemented if farmers and rural landowners are to maintain more than passive control.

#### **Commercial Agricultural Policy**

"Food is too important to be left to agriculture". This seems to be the policy statement in vogue, when it comes to food and agriculture. But in vogue or not, the last vestiges of an agricultural policy agenda dominated by farmers and the agricultural establishment have disappeared. The Henry Kissinger-George Meany scenario is familiar to all of us.

The agricultural planning coalition is now well representative of consumerism, internationalism, and laborism. Recent experience stands as convincing evidence of the rapidity with which the technostuctures of numerous interest groups can move into the planning system of another sector once they perceive an advantage in so doing.

Just a few years ago, making agricultural policy an exciting

topic was a herculean task. Now, it's where the action is—its nice to be wanted again. As a result, agricultural or food policy alternatives are being proposed, discussed and analyzed at a record clip. They have even reached the pages of the *American Journal of Agricultural Economics*, properly computerized and quantified, of course.

It is instructive to examine the recent evaluations of agricultural policy alternatives. They examine the potential impacts of policy changes on consumers, government expenditures, the environment, international relations, the death rate, and even on farmers. Seriously, I believe that at least those of us who are on the public payroll have an obligation for such comprehensive analyses.

But the point is made. The position of the farm community in the planning hierarchy for agricultural policy is at a second echelon. This was put into clear perspective by Swank, head of the Ohio Farm Bureau when he wrote, "The whole debate on who will control agriculture up to now has scarcely included farmers as a group. The debate has centered around big business, big government, cooperatives, bargaining associations, and even consumer groups. Farmers have been omitted from consideration!"

I find it surprising that he excludes farmers from cooperatives and bargaining associations; nonetheless, I think he has succinctly captured the frustration of much of the farm community with what they hear of the current policy debate.

Contrary to my approach on transactions policy, here I feel no compulsion to trot out the myriad of policy alternatives being considered to deal with the food problem. I'll leave that task to Professor Brandow tomorrow morning and to Wally Barr and his "Your Food" group. But I do want to comment briefly on what I see to be a major policy issue for agriculture arising from integration of the planning system and food policy.

Not only has this reduced the influence of the farm community in setting food policy, it has significantly increased uncertainty in the farm sector. The issue, as I see it, is how to gain a meaningful role for the agricultural community in the planning process on a consistent basis.

Again, I look to a combination of collective action and enabling legislation, combined with innovative programs. For example, with agricultural exports and domestic grain reserves receiving much attention from the planning system, and thus sources of farmlevel uncertainty, why not explore policy alternatives that can help

farmers increase their collective influence in these areas?

Tweeten has suggested numerous methods by which farmers can participate in decisions about how much grain should be in reserve and at what price it should be accumulated and released. These are essentially variations around a basic concept that provides for storage incentives to farmers when reserve stocks or commodity prices are relatively low and removal of those incentives when stocks or prices are relatively high. Thus, farmers could individually influence reserves through their response to a combination of market prices and flexible, scheduled incentives.

Another intriguing proposal, dealing more with the export market, is the development of a commodity system where domestic supplies would be set aside to meet regular domestic needs at a reasonable price; then the marketable surplus would be available for export sales and speculative storage.

Producers could exercise direct control over the marketable surplus through a collective mechanism such as a marketing board, market order, or a cooperative venture, or individually through speculative storage, without becoming a destabilizing influence on normal domestic trade.

Clearly, many other policy alternatives exist. But regardless of what specific programs are pursued, the critical point is this: innovative approaches to agricultural policy that explicitly assure a significant role for the farm community in the planning system are the order of the day.

We can no longer assume that the agricultural community will be adequately represented in the absence of such an explicit policy. By like token, policy alternatives that assure a voice for the agricultural community in the planning processes of related industries and sectors need to be clearly articulated. Labor provides a ready example. I doubt if the farm community has had any voice in labor rules that prohibit the distribution of box beef in Chicago and New York, for example, but farmers surely have a vested interest in the issue.

#### **Education and Research**

I want to treat my observations under this title in two general categories, the first dealing with questions of agricultural research, and the second dealing with agricultural economists.

The support base for basic agricultural research and development is shifting perceptively. The shift is clearly away from public

support, although this is not to suggest that publicly-financed research is a relic of the past. A strong base of public support does exist, and probably will for some time to come.

But the rising clamor of non-agricultural interest groups in the planning process is having a major impact upon the relative support for agricultural research and upon to whom that support is directed. Clearly, in terms relative to other public expenditures, investment in agricultural research is declining. At the same time, it is being redirected away from the USDA-Land Grant system and basic research.

This point was emphatically made when a senior staffer with agricultural responsibilities on the house budget committee commented to me recently that most of their contract research money is going to private research and consulting firms for essentially short-term, problem-solving applied research.

This comes at a time when the rate of growth in agricultural productivity is declining, and the resource base for agricultural production has stabilized. The labor force in agriculture is relatively small and not expanding. The most productive land base is fully utilized and under continuing encroachment pressures. With expanding demand for farm products, the need for basic agricultural research may well be close to flood tide.

Again, I believe the policy implications are clear. New sources for financing research are needed. Perhaps, with growing demand for agricultural products, more of the cost for basic research can be internalized through such measures as export taxes, check-offs and the like. Certainly, agribusiness has internalized the costs of much applied research in the past.

Perhaps it will take on an increasing responsibility for basic research, largely because it does have the technostuctural capability to internalize costs. But I believe that the public good nature of basic research mandates a major role for public institutions such as the USDA-Land Grant system. The challenge is to find means to further this goal within the planning coalition.

The implications of the drift toward large-scale economic planning for agricultural economists may be the most unsavory. Nearly 10 years ago the philosopher and sometime agricultural economist Tom Stout wrote, "It is probably not unreasonable to speculate that perhaps the modal group of agricultural economists who expect to complete careers as agricultural economists in domestic public service has already been trained". Finding myself

in Professor Stout's distribution, I fell to pondering this statement in the context of the task that I've tackled today.

The relationship is remarkably clear and straightforward. Can it be that agricultural economists are becoming increasingly less able to perform adequately in domestic public service? The answer may be yes, because agriculture is moving rapidly toward the large-scale economic planning system where the models of competitive economic behavior lose much of their relevancy.

These models lead us largely to policy recommendations aimed at enhancing competitive processes in agriculture. Some examples are market news, grades and standards, extension of management technology, other decision-making information, and the like.

In an industrialized, large-scale planning economy the primary role for public servants shifts from the facilitatory to the regulatory. This requires knowledge of organizations and organizational behavior, of coalitions and syndicates and hierarchies. These are topics and issues that have not been part of the mainstream of agricultural economic thought. And because of that, we struggle and grope to understand the meaning for our clientele—agriculture and rural peoples—of the changing structure of our economy, of the drift toward Breimyer's syndicalistic economy, Galbraith's planning system, and Graham's Planned Society.

Upon becoming prime minister, Winston Churchill said, "I have not become the king's first minister in order to preside over the liquidation of the British Empire". Yet many have observed that he did nonetheless.

Perhaps, in our look at the changing structure of the U. S. economy and the policy implications for rural America, we are likewise witnessing the fall of cherished traditions and useless images of a changing empire.

**PART II**

**FOOD AND AGRICULTURAL POLICY**

