AGRICULTURAL ORGANIZATION IN THE MODERN INDUSTRIAL ECONOMY

Department of Agricultural Economics
and Rural Sociology
The Ohio State University
Columbus, Ohio

NCR-20-68

FOREWORD

This volume contains papers and discussions presented at a seminar on changes in the economic organization of American agriculture. Organization alternatives were examined in terms of workability, acceptability, consequences, and implications for public policy. Seminar participants included members of two North Central Research committees, NCR-20 and NCR-56, and selected other individuals whose experiences and areas of interest qualified them to contribute in unique and valuable ways.

The contents herein should be of particular interest to agricultural leaders who are formulating policy proposals bearing on agricultural organization, to educators who are dealing with issues of changing industry structure in their research and teaching programs, and to students of agriculture who are seeking greater comprehension of the kinds of changes and problems likely to be faced by agricultural people in the years ahead.

The seminar was planned by a Subcommittee of NCR-20 consisting of Peter Helmberger, University of Wisconsin; R. J. Hildreth, Farm Foundation; James D. Shaffer, Michigan State University; and Paul L. Farris, Purdue University, Chairman. The subcommittee coordinated arrangements involving NCR-56 with Dale E. Hathaway, Michigan State University. Manuscript preparation and publication arrangements were handled by Thomas T. Stout, Ohio State University.

Paul L. Farris
Purdue University

AGRICULTURAL ORGANIZATION IN THE MODERN INDUSTRIAL ECONOMY: THE OPEN COMPETITIVE MARKET APPROACH

Harold F. Breimyer
University of Missouri

Last summer at a Beef Improvement Conference it was my assignment to open a small-group discussion of alternative systems for organizing the beef cattle industry. A "lively" exchange followed, nearly all of it on the pros and cons of bargaining. Later, Russell Ives of the American Meat Institute asked me privately why I seemed to steer away from the market system. My defense was simple and honest: I included it as an alternative, but not a soul even mentioned it during the discussion.

The instance was not an isolated one. Indeed, it is typical of both professional and lay symposia on farm policy these days.

Is the open competitive market system, as is sometimes said of God and other deities, now relegated to limbo, even dead? Has it had its day? Is it passé?

One could bore more deeply. At the risk of being impolite he could ask whether the subject is included on the program as a kind of whimsical concession to antiquity.

Yet the more accurate capsuling of contemporary attitudes toward open competitive markets for farm products employs terms neither relative of attention nor of approval vs. disapproval. Instead, we hear nowadays a more subtle language. It is a language that seems to envelop the market organization issue in a display of verbal gymnastics. For example, it is sometimes said that the future of the system is not really under challenge. Structural and functional changes in marketing to be seen everywhere, according to this camouflage, amount only to variants or new arrangements that extend the system. This line of thought may even encompass the idea that other devices are intrinsically the same as an open competitive market system; for doesn't the broiler grower merely market his personal service instead of his feathery product.

Lest this appear overly acerbic, let me hasten to add that it is entirely proper to question whether an open competitive market system can or should survive. There is no valid reason to grant it a grandfather clause protection. Its worth and potential contribution deserve examination. But I also want to make certain basic points clear: (1) An open competitive market system must be defined in rigorous terms; just any old set-up whereby commodities are delivered and someone writes a check in dollars and cents does not constitute a market system. (2) The word "system" is key, for any product or closely related group of products, there must be some central method or arrangement.

Either we use open markets as our basic system, or we do not. (3) The institutional structure for marketing is not self-selective. There are enough internal and external economies and diseconomies in any system that the design of a system involves some element of collective choice. This bears more examination than time permits; and the fact that "we are here" testifies to an understanding that there is need to guide the development of our market institutions.

Origins and Merits

Briefly, two further introductory remarks may help to frame this analysis. One serves to weaken the case for an open competitive market system, the other to strengthen it.

In its essentials, a market system sprang from a concept of economic organization that is indeed out of date, and incompatible with our modern industrial economy. Originally, the food and other products that were offered for sale on open markets, as town markets and fairs, were surpluses that exceeded the needs of producers, be they individuals or feudal estates. They became available not through preplanning so much as the beneficence of nature. One can even surmise that products of artisans such as cobblers originally were of the nature of surpluses, variably available and sold for what they would bring. Price as arrived at on early markets served to distribute product, and scarcely at all to allocate resources.

(When towns grew and attracted a stable population, the cobblers and other handcraftsmen became commercial; they planned their output and they quickly learned to circumvent the purest open competitive market prices through their guilds.)

As man progressively applied rationalization to his economic activity, the open competitive market system began to come under a strain. Its weaknesses as an allocative instrument became more glaring. Agricultural economists can update the issue instantly, for we know so well that it has proved easier to use open markets, employing price, to distribute product than to regulate future farm production. Much farm marketing policy has been directed to improving the allocative function, examples being outlook work to bridge over some of the effects of time lag, and grading of product to facilitate quality control. Nevertheless, programs of this kind invariably run into resistance. Many agricultural economists have pled vainly for further innovation to make the marketing system a more efficient allocative mechanism. I myself still bear scars of the fight for dual grading of beef.

There are two basic reasons why open market pricing has not performed with highest efficiency in allocation. One is institutional. It arises from the presence of intermediaries between the farmer and consumer, that is to say, marketing firms. Although we like to think their interests are identical with those of farmers, the cold fact is that they are only partially so. Obviously, those firms want to buy cheap and sell dear, and they compete with farmers in doing so. But farmers have the same motivations, and this is not the issue. The briefest summary is that marketing firms strive to interpose the maximum amount of their services, and to depreciate both the character and return for farmers' own contribution. Thus those firms prefer to buy field run and sell selectively, to upgrade through their own ingenuity, and in many other ways to make more sophisticated the pricing of their services and less so the pricing of farmers' products. It is a built-in conflict and should not be ascribed to any deviousness.

The second reason for limited efficiency in allocation is grounded in the temporal discontinuity in producing products of nature, together with the apparently infinite number of ways nature can thwart man's imperiousness over her. I am referring to John Brewster's reminder that processes in farm production can neither be performed simultaneously nor stopped en route, plus the obvious fact that natural processes cannot be standardized to the same degree as industrial ones.

If we wished, we could carry this argument one step further and observe how the structure of the basic unit in production in agriculture vs. industry (the farm vs. the corporation) likewise accommodates the different degree of controllability in agricultural and industrial production. The farm, with its composite factors of production, is better adapted to the variability in nature than is the corporation -- particularly if we attach a social cost to industry's system of disemployment of labor as an output regulator.

(This reminds of Don Kaldor's observation that price supports for farm products can be looked at as the equivalent of unemployment insurance for industrial labor.)

The other side of the open-market coin is of different inscription. It puts in bold imprint the merits of the open competitive market system. In several other papers I have begged to defend the system, and offered my tear at its prospective demise. For the system must be regarded as one of the more ingenious institutional inventions of man.

The essence of the matter turns on that concept that so engaged classical economists, the determination of value. In a market system, value is arrived at by consensus among many interested parties, and for the commodity alone. Moreover, it is highly influenced by utility of the commodity. And once so determined, it serves as the reward to producers. That value is the form of reward--not hourly wages or annual salaries and certainly not fringe benefits.

This point bears elaboration. Let's put it otherwise. Brewster and many others have said that we are philosophical heirs of the Calvinists, with their stern insistence that man should be rewarded for his labors according to his performance. In a market economy, how better to apply this principle than by letting each producer receive what the market yields for his product?

If a man raises 50 hogs, let him receive the price of 50 hogs as his return. No question is asked as to how he produced them, how many hours he worked, or whether he used home-grown feeds or a commercial mix with its magic ingredients. All that is irrelevant. He turned out 50 porkers, and their value (price) is his temporal reward.

Moreover, such a system fits with one of the other items in Brewster's enumeration of creeds, the enterprise creed which, among other things, restricts external regulation. A market system obviates all need for the trappings that go with payment for service rather than product--no work standards, no slap-dash judging of quality of performance, no minimum wage, no social security. It is a strange contradiction that advocates of other systems such as vertical contracting allege that less "government" would be necessary -- whatever the word means. The bold fact is that no system is as nearly self-sustaining and self-regulating as an open market system--once it is set in motion with proper laws and services.

To say the same thing differently, given a basic institutional structure, in a market system the individual buyer and seller finds his protection in his access to alternative traders. In a smoothly working system, in its ideal form, the fortunes of each person are circumscribed by nothing other than his own capacities. As I have said elsewhere, there is no occasion for favoritism, discrimination, or other obstruction to our democratic values.1/

We could deliberate at length on the goodness and badness of an open competitive market system. We might infer from the above remarks that such a system rates low on allocative efficiency and high on equity. I hasten to add that it is high on equity only on the Calvinistic premise. There is something brutal about rewarding each person according to his success or failure in his efforts, and, in fact, we have always made concessions to the handicapped, the young, the old; and we have admonished to Christian charity in offsetting the harsher consequences of a Calvinistic

---

1/ Cf. my "Future Organization and Control of U. S. Agricultural Production and Marketing", Journal of Farm Economics, December 1964, pp. 934-935.

mechanism of reward. Moreover, as our society grows more complex and integrated it becomes more difficult to preserve the condition of unhindered opportunity that is essential to an open competitive market system. And as each product combines the work of more hands, it becomes harder to assess what each person's output is. The economists' principles of marginality do not fully suffice.

But even with all these philosophical and operational qualifications, a market system has real merits, and its principal shortcoming is that it does not rationalize, it does not regiment, the production and distribution system as efficiently as more systematically administered systems can do.

If I were to develop the pluses and minuses at more length, I would trespass even further on the topic assigned to Paul Farris, which relates to the principle of decentralization. For a market system offers the acme in decentralization. And the replacements to that system without exception involve some kind or some degree of centralized administration, with all the mechanisms of collective group action that inevitably replace the fluidity of opportunity that is a hallmark of an open market system. As an example to give a flavor of realism to these perhaps transcendental remarks, if we go to a contractual agriculture we will also adopt group bargaining, and unless processes of group negotiation are wonderfully designed we will also rely on mass demonstration and mass protest. Current NFO activities will pale in retrospective comparison. Let no one dream otherwise!

Requisites for Open Competitive Markets

Next, let us consider what would be necessary to preserve, or possibly to re-establish, open competitive markets for farm products.

One problem concerns definition. Must those markets be central assembly markets, familiar to all of us and our conceptual as well as empirical prototype? Pretty obviously, they need not. This is true even though, I think, some of the trading rules and services that attend assembly markets must necessarily be extended to open competitive marketing without central assembly. Direct selling may work all right if there are certain basic rules and a network of market information. Then there are arrangements such as telephonic or electronic auction without physical assembly, as in telo-o-auction of livestock. Tel-o-auction is open competitive marketing.

It may be easy to sketch definitional contrasts with total production contracts as in broilers, with formula pricing as in eggs, and with institutionalized negotiation as with fluid milk. But how about all the gray areas such as those involving farmer marketing cooperatives; and how about price supports?

The American Farm Bureau Federation sees an open competitive market system as the opposite of the (in their eyes) nefarious device, land retirement and price support. I find it hard to accept this. Those programs certainly restrict the allocation role of the market but they do not wholly replace it. For one thing, land programs limit only one of the four factors. And price supports are only a minimum, and they operate through a market system; the CCC is an added, stand-by, buyer. Release policies could force market prices down close to support, but there has been a considerable spread between support and release prices.

It would be wasteful of time to bog down in definitions. Any market system of the future will be of some kind of hybrid. The underlying policy question concerns whether the basic ingredients of an open market system are to be employed or not.

The first issue is simply whether we want an open competitive market system. It is an issue because such a system cannot be counted on to survive unattended. It must be cultivated, protected, serviced. Furthermore, in my judgement it would be necessary in some cases to put restrictions on other systems that are a threat to it. This latter is the hooker. We resist the whole idea of restrictions of that kind. To be sure, we gradually though grudgingly came to accept the principle of anti-trust regulation. But how often do we hear the statement that a market agriculture is preferred by farmers and we would hate to see it go, but it would be unthinkable to do anything to stop any other system from taking over!

My response is a general one: how long will it take the United States of America to learn that its basic institutions, social, economic, and political, must be chosen and established through discrete selection? They cannot be allowed to come into being solely by unguided drift. The principle, so gripping in our time, extends to a market system for farm products.

A few farm groups favor putting restrictions on alternative systems, as some cattle feeder organizations would restrict the volume of livestock feeding to be done by packers and chain stores. As will be inferred from above remarks, I am more sympathetic than are many agricultural economists. On the other hand, I confess to disappointment of another kind: too often the defense of present markets carries with it an aura of perpetuating the status quo. If I begin my recipe with a plea for candor as to the heroics that might be necessary if we were to retain open markets, I add quickly that any such markets of the future must be changed considerably from those we have known. They must be modernized. There is no room for the status quo.

In my talks to farm groups, I ordinarily use the two terms, standardization of quality and scheduling of delivery. Quality standards must be sharpened up much, much more. And there must be, for some products, better methods for establishing quality -- that is, for grading. I have argued firmly that carcass yield selling of livestock will work only if there is third party grading.

Pre-scheduling of delivery is a tougher nut to crack. Yet it can be cracked. The hard part about it concerns the willingness of farmers to live with such a system. Here is what I mean: the best open competitive market system for livestock, in my view, would be one in which farmers presell their animals for later delivery. Almost certainly, some residual spot markets would remain available, and close to half the time the spot price at delivery time would be higher than the contracted price. Farmer cooperatives that have employed contractual selling have found their farmers all too willing to breach the contract when the spot market price was higher than the contract price.

Any such system would require selling on quality certification rather than personal inspection. Indeed, central physical assembly of product is probably unjustified in our day.

It will be clear that the services attending any new version of open markets would be of the same categories as those we have long known. Information, standardization and grading, trading rules. I think this is a correct judgment. However, we may have to use more binding regulations in order to provide all those services. For instance, the trend in the structure of processing and distribution militates against the traditional voluntary soliciting of market news information. Reporting of trading information will have to be required by law, just as reporting of data to the Census is under a legal mandate. The National Commission on Food Marketing was more prescient on this than its critics admitted or its friends knew.

Thus far I have touched on systems of the farmers' offering for sale, and my thinking probably adds up to systematic auction of advance sales contracts. For a competitive open market system to work, it must also meet certain specifications on the demand side. I have no suggestions other than to redesign and enforce anti-trust rules. This itself would be a large order. The policy issue on anti-trust, to be sure, is not confined to marketing of agricultural products. In today's setting, it has comprehensive import.

The Sponsorship Question

To reconstruct and to preserve an open market system for the future would require some heroics, I have said. Who will perform them?

Market policy in the U.S., following English tradition going back many centuries, has been associated with central government, both state and federal. If there is to be orderly marketing on an open, competitive basis, there must be rules and services that extend uniformly throughout the market trading area. These often can be established best by central government. I would argue vociferously that by and large in the U.S. they have been performed well.

Yet we have seen a trend toward more localized servicing, notably in marketing orders for milk, fruits, vegetables and nuts. And the talk nowadays centers on more use of group action in marketing and less reliance on government. I do not retreat from my viewpoint that the basic institutional structure must be determined and enforced by law. But even so, perhaps farmers have been spoon-fed too much. Perhaps they should be expected to assume more responsibility, through their own group action. For example, in both grain and livestock marketing the federal government assumes most of the obligation for market performance. I tell cattle producers that they are guarded on every side when they market their product, and in their frequent declarations of agrarian independence they are ingrates. Various fruit producers on the West Coast, by contrast, impose marketing regulations on themselves. Their action, it seems to me, reflects a good deal of responsibility. Maybe livestock producers of the Midwest should do likewise. Possibly hog producers should jointly decide to market only under tight grade standards that facilitate premiums for meat hogs. Why should they beg packers to shell out a bonus, and why must they depend on harrassed federal officials to fight all their grade-standard battles for them?

Markets for Inputs

In keeping with the theme of this conference, the remarks herein are largely confined to marketing the products of agriculture. There is, of course, a matching marketing system, that of inputs that farmers buy. In some respects the problems there are equally knotty. And precedent, tradition, and established positions of existing organizations are impediments to reshaping via policy. Yet it is proper to raise searching questions. Is the "market" system for obtaining finance capital satisfactorily geared to today's needs? How about the degree of competitiveness in some factor markets? And it scarcely need be added that much of the contractual integration that has spread so fast originated with input suppliers and not with product-market firms.

Epilogue

The heart of my message has been that the crucial question with respect to an open competitive market system for farm products concerns not the equipage of such a system but the policy decision as to whether we want one -- and for what products. We are inventive enough to draw up the mechanics, if we have the motivation.

It is hard to feel any confidence that U. S. agriculture will take steps to preserve open markets. Isolated groups will make a brave try in their own behalf. The new cooperative tel-o-auction for slaughter hogs that MFA set up in Missouri represents an imaginative adjustment to the situation in hog marketing. Yet the caption the editor(s) of a recent anthology gave to a selection from Edward Higbee's book of five years ago conveys the message: "The Race Toward Total Integration"2/ (I would prefer to say, "Re-integration", for it was with an integrated economy that the revolutionary events of the last three centuries began.) This seems where our economy is headed. U. S. agriculture will be enveloped in it, incidental to a relentless integrative trend that is pervading the entire economy. Nor are the forces at work primarily related to efficiency; rather, they are part and parcel of business strategy. Control over sources of raw material supply is always an instrument of power.

Just as the threat to an open market system bears only loose connection with the efficiency of the system, even so does the strongest argument in its favor rest not on efficiency but on its place in the kind of economy that we want for our nation. Put more directly, farm markets are dwindling because they are incompatible with total integration, total centralization. Likewise, if it should be national policy to resist and restrain centralization, an open competitive market system for farm products in one of the instruments available.

Thus, the policy issue regarding open markets relates more closely not to the economics of other arrangements such as cooperatives and contracting, but to the socio-political considerations in centralization versus decentralization of our economy -- that is, to the topic Paul Farris will discuss later in this symposium.

2/Edward Higbee, Farms and Farmers in an Urban Age, New York, Twentieth Century Fund, 1963, quoted in Agricultural Thought in the Twentieth Century, George McGovern, ed., Indianapolis, Bobbs-Merrill, 1967, p. 496.