



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

*No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.*

PROCEEDINGS

44th Annual Meeting

WESTERN AGRICULTURAL ECONOMICS ASSOCIATION

Squaw Valley, California  
July 25, 26, 27, 1971

Samuel H. Logan, Editor

## POLICY IMPLICATIONS OF CONGLOMERATE GROWTH IN AGRICULTURE\*

John A. Hopkin  
Texas A&M University

The years 1967-69 must be considered as another of those few select periods in U.S. history when heavy movement toward industrial consolidation occurred [6]. In absolute measures, it represents the heaviest rate of consolidation in our national history, and even in relative terms, it represents, by most measures, the heaviest rate since the turn of the century [13]. It was also the time when agriculture, and businesses related to it, became objects of acquisition by nonagricultural firms. Agricultural and political leaders -- including a number of agricultural economists -- expressed serious concern toward the end of this period that traditional agriculture was in the process of being destroyed by what some termed a "monstrous and pernicious movement" [20]. Although the rate of conglomerate growth slowed down during late 1970-71, I agree with your program committee that this phenomenon still comprises an important part of the policy questions facing agriculture.

I would define conglomerate as "a collection of nonhomogeneous entities assembled into a single body". The 1950 Amendment of Section 7 of the Clayton Act specifically brought vertical and conglomerate mergers under the scrutiny of antitrust legislation. As used by Antitrust, a conglomerate merger is any merger in which the parties are neither competitors nor vertically related. If a merger takes the acquiring firm into a geographic market in which it was not previously marketing or into a product which was not vertically related to existing products, then the merger would be defined as a conglomerate merger [11]. Conglomerate growth can be achieved without mergers, of course (through internal growth, for example), although merging is, by all odds, the most popular means of conglomeration [15].

### Forces Back of Recent Conglomerate Mergers

Among the more important factors leading toward the recent growth in conglomerate mergers are the following:

1. Diversification and profit stabilization. Profit stability is an important objective of any management team who must face a conscientious board of directors regularly and a less informed body of stockholders annually. To achieve perfect stability, of course, management must find sets of products whose profits have perfect negative correlation over time. Traditionally farmers have not found product diversification highly successful in reducing income variability because profits from alternative farm products in a given geographic area tend to be positively correlated. My own experience and studies lead me to the hypothesis that, within agriculture at least, more success toward income stabilization can be achieved through geographic diversification within a rather narrow product specialization than can be achieved through product or industry diversification within narrow geographic orientation [8].

My review of literature leads me tentatively to conclude that conglomeration has, on balance, reduced slightly the income variability of the acquiring firms.

2. Economies of scale. On the surface, conglomerate mergers might seem unrelated to economies of scale. We think of either horizontal or vertical integration as being designed to achieve scale economies. This may be true in a narrow, operational sense. However, the essence of modern business success relates to the development of an effective system of management, i.e., of a coordinated management team, an effective relevant research and development program, a coordinated marketing program, a computerized system of information flows, procedures for quality and financial control, etc. Once such a system has been developed to operate successfully for a given set of products (be it rubber tires, farm chemicals, airplanes, or detergents), it can be applied to other products as well,

including farm products. And if the SEC takes a dim view of further vertical or horizontal integration by a particular firm, its only alternative to exploit its management skills is through expansion into totally different areas [14].

3. Economic growth. Above and beyond the benefits of economies of scale -- or possibly even in the face of minor diseconomies -- there is an impelling force for growth inherent in all organized activity. It is not unique to business organizations under a capitalistic system, although the growth phenomenon is given strong encouragement by the special treatment given capital gains in our tax structure. So long as profits withheld from stockholders receive more favorable tax treatment than profits paid out to stockholders, corporations will seek avenues for expansion.
4. Market power. Selected rules setting the limits for market power are patrolled by the SEC and the Antitrust Division. Within the constraints of these regulations and interpretations, each firm strives to increase its market power. Conglomeration may increase market power by increasing the total resources and volume of products over which the firm has control and through reciprocity [1], i.e., through agreements between firms to buy each others products. Quite clearly, as a firm increases the level and variety of purchased resources and/or the number of salable products, its ability to use reciprocity to alter free market forces is increased. The Clayton Act appears to leave a fairly wide field in which to play the market-power game.
5. Financial synergism. During the late 1960's, the merger kings re-emerged in the business world. Such firms as LTV, G & W, and Teledyne seemingly were able to achieve a new synergism through mergers. I have neither the background nor the time to attempt a satisfactory exploration of the different methods used for financial pyramiding through mergers. Some of these were outlined in detail in the business magazines, during 1969 particularly [4, 18]. I will comment on three sets of forces which might give rise to this apparent synergism.

First are the accounting manipulations which make things seem different than they really are. It was plain financial legerdemain which gave rise to some of the "high flying" conglomerates during the 1967-69 period. By means of accounting ploys, the assets of the acquired company were used to leverage the take-over of still another company, and so on [2]. Profitable operations were merged with unprofitable operations and by the "miracle" of consolidating financial statements, combined "paper" profits were increased, the price-earnings ratio would jump, and the market price of the stock was made to soar. Ambrose Bierce's definition of a miracle seems apropos: "An act or event out of nature and unaccountable, as beating a normal hand of four kings and an ace with four aces and a king".

There are, however, perfectly legitimate situations in which the take-over of a financially solid company with unimaginative or ultra-conservative management by an aggressive and imaginative management has resulted in rather miraculous results. But the "miracle" here is one of performance, with the benefits manifest in a higher profit stream over the years. Had Montgomery Ward been taken over by almost anyone in 1946, for example, some rather impressive results might have been achieved.

Without question, the most important set of forces accounting for this apparent financial synergism is a system of tax subsidies associated with particular types of mergers. Under the typical merger or take-over, convertible debentures and warrants are exchanged for the equity capital of the firm being acquired. In the process, stockholders' equity is converted into debt, thus substituting interest (which is tax deductible) for dividends (which must be paid out of profits). Furthermore, losses from one division can be transferred to offset income from another division within a conglomerate. Consequently, a totally bankrupt firm with a substantial loss carried forward may be the hottest thing on the market because it can generate almost immediate cash flow to a highly profitable company which might acquire it.

Still another tax subsidy helping to underwrite particular kinds of mergers arises from the special tax consideration given capital gains. Some businesses are able, through investment credits and accelerated depreciation, to generate deductible "expenses" beyond their capacity to utilize them in their normal operations. Ordinary income from other sources can then be offset by these extraordinary deductions, thus transferring ordinary

income this year to capital gains which will become taxable at a much lower rate many years down the road, if ever.

### Conglomerates in Agriculture

There are special reasons why agriculture and its related fields might be attractive prospects for conglomerate acquisition.

1. There are important geographic areas where the application of new technology in land development lends itself to large scale enterprise -- land clearing in wooded areas of the South, or deep-well irrigation developments and land leveling in the high plains and some mountain valleys, or the development of new orchards in many areas, for example.
2. The level of financial planning and management in much of conventional agriculture is such that the pay-off to a superior management team might be substantial. Few, if any, of us have yet a clear vision of the leverage which the computer, for example, gives to superior management in agriculture.
3. Price cycles in many agricultural enterprises differ sufficiently from the usual business cycle to offer some opportunity for stabilizing corporate income flow by adding selected agricultural ventures.
4. Agriculture lends itself to procedures designed to convert current income into future capital gains. I should emphasize, however, that agriculture is not unique in this regard and might, in fact, be less effective than oil exploration, mining, or low-income urban housing. Nevertheless, essentially all of the features of other natural-resource based industries apply to agriculture as well. Moreover, the special tax status of "breeding" livestock provides substantial flexibility to tax planners and investment counselors. Additionally, special provisions of the internal revenue code permit the inclusion of soil and water conservation expenses as ordinary operating expenses up to 25 percent of gross income, and land clearing expenses up to 25 percent of net income. Government payments to help defray land development costs also help to make this type of investment attractive to outside investors.

### The Problem is Broader than Conglomerate Growth

I suspect, however, that the primary concern within agriculture is not so much with conglomerate growth in the strict SEC sense as it is with the broader, more significant thrust of big, outside businesses and outside equity capital into agriculture. Vertically and even horizontally integrated firms likely pose a greater threat to established and traditional agriculture, on balance, than do conglomerate firms. Most of the apprehension expressed by farm spokesmen, political leaders, economists, and others over "the corporate take-over of agriculture" seems directed at this broader concern [21].

Therefore, I choose, through most of the remainder of this paper to consider the broader set of problems. I justify having devoted so much attention to the forces influencing conglomerates because (1) conglomerates are becoming an important part of the total problem and (2) most of these forces apply to mergers in general.

### The Present Situation

A brief inventory of the present situation might be useful. Scofield and his colleagues in ERS continue to assemble much useful information concerning the extent to which corporations have moved into agriculture and the rate at which this movement is taking place [17, 3]. In total, these surveys indicated that the corporate take-over has been less than many had asserted.

But the trend continues strongly in cattle feeding. During the period of April-December 1970, for example, a total of 22 new corporate cattle feedlots were reported with a capacity of 363,000 head with Texas leading the list, followed by Kansas. A brewer, a national feed company, an oil company, a chemical company, meat packers, farmers' grain marketing cooperatives, and a producers' livestock marketing association are all represented among those engaged in feedlot expansion during this brief period. Many of these developments represented increased vertical integration, although a number of existing

feedlots expanded horizontally into new geographic areas. Some, however, were strictly conglomerate mergers.

The 1969 revision of the income tax code, followed quickly by the notorious bankruptcy of Black Watch Farms last September, combined with a depressed stock market, slowed the new investment program in cattle breeding ventures to a virtual standstill for a while. But new prospects for cattle investment ventures are beginning to appear. Conditions seem favorable for a significant "coordinating" move in hog production, also. Most of the new production facilities reported during 1970 are located outside of the corn belt -- particularly in the Southwest and Southeast, pushed more by feed manufacturers than by meat packers. However, some grain marketing co-ops are exploring the possibility of integrating forward into large scale hog production.

There is an increased interest in the limited partnership as the legal vehicle for putting together a financial package of "outside" funds for investment in agriculture. Actually, the limited partnership is more effective than the corporation in providing a tax shelter inasmuch as annual expenses (interest, feed, etc.) in excess of annual cash incomes may be charged against outside income that year by the individual partners, whereas corporate losses cannot be used thusly by individual stockholders.

Food-based corporations are continuing to integrate backward into land acquisition and agricultural production. Some are also expanding their overseas operation -- not only in terms of markets, but in terms of production and processing as well [19]. Not only are farmers' cooperatives integrating forward into processing and distribution, but more also are becoming active in foreign distribution. One hears increasing talk about participation in foreign production by U.S.-based farmers' cooperatives.

This brief listing is but a part of the continuing manifestation of the transition of our active food production, processing, and distribution system from one dominated by independent, small producers on one end and small, independent food retailers on the other to an integrated food production-market-service system. This process has been so adequately explored and documented that I need not duplicate the effort [10, 12]. Failure of the traditional system to coordinate sufficiently decisions at successive economic stages within this system has been emphasized as an important factor creating the need for contracts and other coordinating arrangements leading toward greater integration of stages and firms.

The need for coordination is quite clear. But I'm not sure that the advantages in coordination lie preponderantly on the side of the large industrial-based conglomerate or vertically integrated firm. To enhance management control, profit-and-loss centers are established at separate geographic locations and/or at different economic stages within a large corporation with rewards metered out to middle and lower level management according to imputed profits. Because transfer prices are often the dominant factor determining imputed profits, a substantial proportion of total corporate effort often becomes directed toward influencing transfer prices with the double loss of wasted effort on the one hand and a likely misdirected allocation of resources on the other. Occasionally, courageous senior management resolves the internal-pricing problem by going to the market for transfer prices -- which is, theoretically, where the informed independent producer goes for his information. Coordination is continuously difficult, and success may be more related to management competence than to the particular legal structure which links successive stages.

Some rather impressive levels of performance have been achieved by some recent joint ventures between farmers' cooperatives and publicly-owned or privately-owned corporations [19]. One of the early ventures of this kind was between Allied Grape Growers (a farmers' cooperative which processed and marketed grape products for its members) and Petri Wines (an established marketer of labelled wines). The contract called for Petri to take over the marketing of the wines, with substantial control over quality specification and product allocations. More recently, Minute Maid and Hueblein have entered into a somewhat similar joint venture.

This procedure provides to the cooperative a market skill as well as an entry into an established market system. To the marketing firm, it provides an assured supply of quality products (since quality specification appears to be a vital part of the contract) acquired under the tax benefits which a cooperative can provide. We ought to become more familiar with the legal and accounting details of this type of venture, as well as with the financial and business opportunities and problems it presents.

## Policy Issues

A discussion of policy issues would be easier if only I were clairvoyant. Unfortunately, I am not. At best, I must chart any future course by trying to interpret what I see from looking through the rear-view mirror. When the terrain is changing as rapidly and as dramatically as it is in commercial agriculture, this procedure is risky. Policies designed for an agriculture projected by extrapolating historic trends often miss the mark. For this and other reasons, we often ask the wrong questions in agricultural policy. Let me cite a few examples.

1. Some agricultural spokesmen appear to be asking how the movement of outside equity capital into agriculture can be stopped. I would hypothesize that those sectors of agriculture which will successfully make the transition into the 20th century will need infusions of capital substantially beyond that which they can retain out of farm profits. A more relevant question may be how can farmers generate the equity and debt capital (and provide the total management skills) required to make the transition.
2. Nor is the problem one of keeping corporations out of agriculture, as has been legislated in some states and proposed in others. A corporation is a legal form of business organization having several characteristics -- such as limited liability, legal continuity over time, fractional ownership claims on the undifferentiated assets of the business, opportunity for employee benefits, and tax flexibility -- which most farmers could find beneficial in making their estate planning and financial management decisions.
3. Similarly, I do not believe the central problem is one of limiting the size of farm operations. Technology is a ubiquitous and relentless force with impelling economic dimensions, pushing the scale required for maximum efficiency in the production of many commodities beyond the capital and managerial capabilities of most traditional farmers. Ideally, if we were omniscient, our farm programs would be designed to encourage that size of farm firm which would exploit economies of scale. If much of agriculture has constant returns to scale over a long range of sizes as some have suggested, perhaps our policies should be somewhat neutral with respect to size. Presently, our agricultural policies are dichotomous with respect to size, which is quite a different thing than being neutral.

Let me briefly outline five areas which seem to me to present matters of legitimate concern to agriculture, its leaders and spokesmen, and to those who serve it.

1. The system of small, independent producers, which formed the central core of our national land and agricultural policy during the first 175 years of national history, has been seriously challenged by the industrialization of agriculture. During the past 20 years, however, our policies have shifted toward a commercial agriculture which is a vital part of an efficient coordinated food and fiber system, and we appear to be heading strongly toward a consumer-oriented policy for agriculture. A very relevant question is whether or not, in the emerging political setting, the traditional system of family farms can or should be preserved and at what cost.
2. The special tax privilege given to capital gains in our economic system appears to be at the root of some of our policy problems. One might make two different assumptions concerning the origin of this law in a democracy: first, that it represents an expression of confidence in the realization of the hope that most citizens would participate in the ownership of physical assets and thus share with some degree of comparability in the benefits of capital gains; second, that it represents the fruits of inordinate political pressures successfully exerted by the financial community. The latter, on balance, seems more plausible.

One concern manifest over conglomerate and other large commercial interests becoming large land owners is that this process denies to the masses the opportunity to participate in capital gains. Granted that great accumulations of wealth have been achieved through land speculation. Nevertheless, I believe the potential gain through land holding tends to be overstated. Many agricultural land holders likely have achieved less capital gains over the years from holding land than they might have achieved with alternative investments. The sale of

Manhattan Island by an American savage to a sharp-trading Yankee for about \$24.50 is held up as one of the great classic errors in real estate merchandising. However, had that Indian invested the \$24.50 at 8 percent compounded annually, it would have been worth \$12,321,094,615,874 as of last January 1, which might more than buy back Manhattan Island with all of its capital investments.

But let's suppose I'm wrong and that holding title to land turns out to provide greater capital gains than alternative investments. Would not the conglomerate movement increase the number of people participating in capital gains by virtue of the greater degree of fragmented ownership associated with a firm whose stock is traded on public markets?

3. There is and should be a concern over a lack of fair play in the apparent financial legerdemain we hear and read about associated with conglomerate mergers. When information flows relating to public securities are such that the reporting system becomes more noted for what it conceals than for what it reveals, and when this deceptive process gives rise to unusual increments of gain, corrective action is called for.

Similarly, there is and should be concern when a taxing system gives impetus to enterprise combinations and resource allocations which would be noncompetitive in the absence of tax subsidies -- particularly when the income distribution resulting therefrom is strongly regressive. Recent changes in tax laws have reduced the tax-loss write-offs from a farming operation to \$25,000 per year, generally, which is designed to heavily reduce the most serious abuses. However, this problem is much broader than agriculture, and one might pose the counter question of whether or not agriculture should be singled out from other business ventures for this special restrictive treatment with respect to taxes.

4. There are difficult legal conflicts associated with problems of economic concentration in agriculture (and in all other economic activity, for that matter) on issues of "restricting competition". Part of the conflict centers on the definition of competition, the criteria for measuring competition, and the facts pertaining to those criteria. For example, there is general agreement that forces which restrict entry into a given field tend to reduce, while those which reduce barriers of entry tend to increase, competition. A legitimate question of fact is whether or not conglomerates increase or reduce those barriers. Given the present state of industrialization within our food and fiber system and the severe capital requirements resulting therefrom, I would hypothesize that bringing in outside capital through conglomerate mergers and other types of corporate and limited partnership investments tends to reduce rather than increase the barriers for entry into new agricultural enterprise, thus making modern agriculture more competitive and more responsive than it would otherwise be.

Within the new industrial setting, can we continue to measure competition in agriculture in the classical sense? During an earlier period of concern over oligopoly and antitrust, Schumpeter [16] argued that the criteria for decisions on the kind of economic system for which to strive should come from the long-range dynamics of competition rather than its short-run statics. In the dynamic setting, attention to planning, research and development, capital formation, and capital flexibility may be more significant to consumer welfare than the particular percentage of resources or market over which a given firm or group of firms exercise control. To use the atomistic barter system of an oriental food market to demonstrate, in the classroom, the process of reaching price equilibrium under "pure competition" is one thing. To use it as a standard by which to judge the acceptability of a merger proposal is quite another. Those who have shopped for poultry products in both an American supermarket and in an isolated market of the Orient likely understand this profound difference in the term "competition".

I do not mean to infer, however, that market concentration poses no problem. The dangers lie, primarily, with reciprocity and market power. The opportunity for reciprocity is substantial among large conglomerates and integrated firms in the broad spectrum of agriculture. Consequently, this matter warrants further study and continuous monitoring. Concern over market power should arise whenever a firm (be it proprietary or cooperative) gains sufficient power that it can alter the "rules of game".



One specific area which might become of special concern to agriculture and the businesses serving it is the one-bank holding company. The adequacy, terms, and rates at which debt capital is made available to these businesses are vital to their continuing success. A merger which involves the take-over of a large farming operation and a vital nonbanking service by a one-bank holding company carries, it seems to me, a potential for circumventing free market competition. For example, I would not like to be the proprietor of a farm supply business whose major competitor was held by a bank holding company which also owned the major bank serving the area. Decisions by the banker on loan requests by farmers could affect the outcome of my business more than any other single factor. I have no case in point -- only a potential danger that warrants watching.

5. From the standpoint of rural areas, the largest set of policy problems are those related to people adversely affected by the industrialization of agriculture. For a number of reasons (only part of which are associated with the conglomerate movement), many people in rural areas do not have the resources with which to earn a socially acceptable standard of family living [7]. Mostly, these problems have either been ignored or aggravated by our price-oriented agricultural policies. Even the "War on Poverty" and the present emphasis on Rural Development hasn't marshalled a serious attack on the problems faced by these people. Copp has suggested that "perhaps we don't want to win the war (on poverty); we only want more human treatment for the losers" [5]. Let's assume he is wrong -- that we really do want to mount a serious attack on these difficult human and community problems. I suggest that success will still await a better blending of the best that can be offered by the sciences of economics, sociology, political science, and finance.

#### FOOTNOTES

\*Technical article number \_\_\_\_\_ of the Texas Agricultural Experiment Station. This paper has benefited from a critical review by Dr. Peter J. Barry, Department of Agricultural Economics and Rural Sociology, Texas A&M University. His contributions are gratefully acknowledged.

#### REFERENCES

1. Arnold, Richard, "Conglomerate Growth and Profitability", in Economics of Conglomerate Growth, edited by L. Garoian, Ore. St. Un., 1969, pp. 72-80.
2. Briloff, A.J., "Financial Motives for Conglomerate Growth", in Economics of Conglomerate Growth, edited by L. Garoian, Ore. St. Un., 1969, pp. 81-87.
3. Coffman, George W., Corporations with Farming Operations, Agr. Econ. Rep. No. 209, USDA-ERS, June 1971.
4. "Conglomerates", Business Week, November 30, 1969.
5. Copp, James H., "Poverty and Our Social Order", American Journal of Agricultural Economics, Vol. 52, No. 5, December, 1970, pp. 736-744.
6. Federal Trade Commission, Economic Report on Corporate Mergers, Hearings, Subcommittee on Antitrust and Monopoly, Committee of the Judiciary, U.S. Senate, 91st Congress, 1st Session Part 8A, U.S.G.P., 1969.
7. Hathaway, Dale E., "The Relevance of Present Price and Income Programs for the Food and Fiber Industry of the Future -- Discussion", in Agricultural Organization in the Modern Industrial Economy, NCR-20, Ohio St. Un., April 1968.
8. Hopkin, John A., Commercial Vegetable Production in California, Bank of America, San Francisco, Calif., January 1960.
9. Lintner, John, "Expectation, Mergers and Equilibrium in Purely Competitive Securities Markets", The American Economic Review, Vol. LXI, No. 2, May, 1971, pp. 101-111.

10. Minden, Arlo J., "Changing Structure of the Farm Input Industry", American Journal of Agricultural Economics, Vol. 52, No. 5, December, 1970, pp. 678-686.
11. Narver, John, "Conglomeration in the Food Industries", in Economics of Conglomerate Growth, edited by L. Garoian, Ore. St. Un., 1969, pp. 21-41.
12. National Commission on Food Marketing, The Structure of Food Manufacturing, Technical Study 8, Government Printing Office, 1966.
13. Nelson, Ralph L., Merger Movements in American Industry, 1895-1956, (N.B.E.R.), Princeton University Press, 1959.
14. Reid, Samuel R., Mergers, Managers and the Economy, McGraw-Hill Book Company, New York, 1968, Ch. 9.
15. \_\_\_\_\_, "The Conglomerate Merger: A Special Case", Antitrust Law and Economics Review, Vol. 2, Fall 1968, pp. 141-166.
16. Schumpeter, Joseph A., Capitalism, Socialism and Democracy, Third Edition, Harper and Brothers, New York, 1950.
17. Scofield, W.H. and G.W. Coffman, Corporations Having Agricultural Operations, a preliminary report, Agr. Econ. Rep. No. 142, USDA-ERS, August 1968.
18. "The Merger Movement Rides High", Fortune, February, 1969.
19. Thor, Eric, Changing Structure of the Market, Proceedings of the National Agricultural Outlook Conference, U.S. Department of Agriculture, Washington, D.C., February 1971.
20. U.S. Senate, Corporation Farming, Hearings, Subcommittee on Monopoly, 90th Congress, 2nd Session, Great Plains and Upper Midwest, May 20-22, 1968.
21. University of Nebraska, "Corporation Farming, What Are the Issues?", Dep. of Agr. Econ. Report No. 33, 1969.

## POLICY IMPLICATIONS OF CONGLOMERATE GROWTH IN AGRICULTURE: DISCUSSION

Eric Thor  
Farmer Cooperative Service, U.S. Department of Agriculture

John's message is loud and clear. Conglomerates are coming into agriculture. The reasons differ with each decision, and availability of money, tax advantages, ability to market, and lower cost of processing are some of the major factors. The dividends conglomerates are paying to their shareholders and the interest rates they pay on borrowed capital are less than farmers pay. Most conglomerates are able to obtain higher net returns from marketing and are able to purchase inputs at lower cost than the average farmer can. Simple economics would support the hypothesis that in the long run conglomerates will eventually take over agriculture.

I submit that this does not have to happen.

There is adequate research to show that the owner-operator type farmer on an efficient-sized farm obtains higher yields per unit of land or livestock and has lower labor and management cost than the large corporate type of farm. However, research also shows that the operator of a family farm is not able to obtain as high a net return from marketing, nor is he able to procure the production items at as low a net cost.

There are several ways farmers can gain most of the advantages associated with the large scale corporate operations. One method is through some type of contractual arrangement with the large, integrated firm. This method would assure the farmer a "home" for his product. The firm could provide the farmer with capital, and it could help the farmer with marketing, and it could help the farmer with his planning to assure that the right type quality and quantity of product was produced. The unsolved problem, however, is arriving at price and terms of contract that are fair to both parties. As individuals, farmers have little negotiating power.

A second method is for a group of farmers to join together and become the full supplier to and sharing the profits with the integrated company. As would be expected, most large firms resist this approach much in the same way large manufacturing corporations resisted the unionization of labor.

A third way is for farmers to join together and bargain with buyers. If farmers are going to become successful in bargaining and negotiating contracts with large integrated firms, additional legislation is needed to establish more firmly the rules under which each will operate.

The fourth method is for the farmers to join together in cooperatives and have their own processing, marketing, and distribution companies. I think the lack of know-how on the part of the farmers is the main obstacle why this approach is not progressing more rapidly.

### Implications for Agricultural Extension, Research, and Service Workers

Probably no group of public servants has contributed so much to improving the standard of living of the people of this nation as have the agricultural extension, research, and service workers. These three groups together have played a major role in making America's agriculture the world's most efficient.

U.S. agriculture is entering a new era. It is in the process of becoming part of the world's most efficient food and fiber system.

This new system, as it is developing, is creating a major economic crisis down on the farm. The family farm which for generations has been the backbone of the nation's agriculture could disappear. It is in danger of being eliminated because those who helped to make agriculture great are not providing the type of leadership necessary.

As discussed earlier, there is adequate research to show that the efficient owner-operator farmer can produce farm products at lower costs than anyone else. In my opinion the most efficient food and fiber system would be one which combines the most efficient segments of the system.

We, the public servants of agriculture, can play a major role in bringing this about. The steps we will have to take include: (1) commit ourselves to provide the leadership and technical assistance necessary; (2) retrain ourselves so that we will have the technical competency and, (3) organize ourselves to do the job now.

I would like to briefly discuss each of these.

1. Commitment. I doubt if those of us in this room could agree upon the role that public servants should play in the emerging industrialized food and fiber system. Over the years I have heard many of you argue that we should be a passive group and never become so deeply involved that some day, someone might say, "He made a decision to do something because of our recommendation". Others of you have stated that you think we should provide leadership and be highly involved in helping farmers and agribusiness firms make decisions. I will not try to bring these schools of thought together. I do, however, want to point out that if we do not commit ourselves to provide leadership to develop the most efficient system, it will not develop. The opportunity for large corporations to gain short-run profit at the expense of the farmer and his family is too great.

In addition, if those of us who are the professional employees in the land-grant colleges, the state departments of agriculture, and the U.S. Department of Agriculture do not provide the leadership, then production agriculture will go the route of the large corporation. This would cause heartache and tears to farmers and their families and in the long run could adversely affect the entire nation.

2. Retrain Ourselves. Two of the things that impressed me most when I first came to Washington, were (1) the number of high-caliber people in the USDA, and (2) the lack of opportunity individuals have to fully utilize their talents.

If we are to provide leadership in the industrialization of agriculture, we are going to need all the talent available. The solutions will require working with the entire food and fiber system. This will require the development of some new skills. I think many of the professionals in USDA would be eager to be retrained in order to take on new challenge.

3. Organize for Leadership. I have no more insight as to how we should organize than do the rest of you. However, to provide a starting point for discussion, I would like to spell out in broad terms one approach that we might use.

In this approach the public groups represented here would work together more closely than they have in the past. A team approach would need to be used. The team would have as its purpose the development of the most efficient industrialized food and fiber system. This team would leave the other problems in agriculture and rural America to somebody else. Individual economists working on problems associated with agriculture and rural America can no longer be all things to all men.

In order to provide leadership in agriculture, both the land grant colleges and the USDA will have to make some adjustments. Researchers and extension workers would have to be on the same team. For the land grant schools, I would suggest that the people programs such as rural development, human nutrition, and general education programs be kept on a county base. The county agents would work on people programs. Work with commercial agriculture would be done by specialists. Experiment station workers and extension specialists would all work together on the same team. The teams would work on an area basis rather than county.

At the USDA level, I would suggest the organizing of a multidiscipline team with the specific task of developing the most efficient food and fiber system possible. The team should include individuals who are interested in (1) being part of a mission-oriented applied research team and (2) interested in helping individual marketing firms to implement the research findings.

The USDA group would have to work hand in hand with the state groups. Both groups would work with marketing firms such as has been done with individual farmers during the past 40 years. Projects would be mostly a combination of applied research and assisting marketing firms to implement research results. Projects would be designed to fit the individual firm or firms. In most cases projects would have to be multistate in scope.

I think that if we, the public servants in agriculture, take the bull by the horns, to speak, and provide the leadership necessary to help agriculture and associated business develop the most efficient food and fiber system possible, many of the problems that are worrying the efficient owner-operator farmer and his family would disappear.

If we do not take this or some similar approach, most colleges of agriculture will slowly fade away.

POLICY IMPLICATIONS OF CONGLOMERATE GROWTH  
IN AGRICULTURE: DISCUSSION

Richard G. Walsh  
Colorado State University

I wouldn't be surprised if reflection on Hopkin's thoughtful paper has led many readers to conclude that the large conglomerate is sick, and that it will take major reform to make it well. Others have acknowledged that there are problems and that some changes are necessary. But few people before have argued for basic change in the status of the large corporation.

1. The opportunity for reciprocal dealing and the market power to exclude competition, he finds, is substantial among large conglomerates and integrated firms throughout agriculture.
2. The taxing system subsidizes enterprise combinations and resource allocations which otherwise would be noncompetitive, and this has strongly regressive income distribution effects.
3. The large conglomerate reporting system relating to public securities is clearly deceptive and is more noted for what it conceals than reveals.

He concludes that such privileged behavior represents the result of political power successfully exerted by the financial community. Corrective action is called for, he believes, to reduce these most serious abuses.

I would like to comment on Hopkin's observations concerning conglomerates and barriers to entry, the role of competition, and antitrust policy. In addition, I will introduce a few points of my own concerning conglomerate growth in agriculture. These will include some effects of ordinary holding company banking, conglomerate mergers, and administrative decision making on commercial agriculture, rural development, and the people involved.

#### Barriers to Entry

Hopkin hypothesizes that bringing in outside capital through conglomerate mergers would reduce rather than increase the barriers to entry into new agricultural enterprise, thus making modern agriculture more competitive and more responsive than it would otherwise be. It is true that conglomerates are more likely to possess the retained financial resources needed to enter highly-concentrated, high-profit industries, virtually closed to new-firm entry. Oligopolists in these industries will, as a result, tend to behave more competitively than before in pricing their products in the hope of deterring the potential competition of the conglomerates. But very little agricultural output is produced by a few firms in concentrated markets. Some of the specialty crops and livestock may qualify. Even there, we are deluding ourselves if we think that entry by conglomerates is equivalent to new-firm entry. This is because conglomerates tend to have a higher profit objective than most American industries, including most of agriculture. Moreover, the capital bottled up by conglomerates in search of high-profit opportunities is unavailable for many worthwhile investments in commercial agriculture, which may have lower returns than conglomerate profit objectives.

#### Antitrust and Competition

Hopkin criticizes the antitrust laws designed to deal with merger proposals by conglomerates. He rejects the use of competition as a standard by which to judge the acceptability of mergers. I cannot agree. The antitrust lawyers I have worked with have both feet in the real world. They deal with questions of more or less competition, on the margin. Their standard does not embrace an ideal state of perfect competition, atomism, or anything of the sort.

Some conglomerate interests have also objected to the concept of potential competition as currently applied by the antitrust agencies in merger cases. But it is simply the potential market invasion that dairy plant managers insisted Emerson Babb plug into the excellent dairy plant management game developed at Purdue nearly 10 years ago.

Also, the source of a conglomerate's market power is not simply its operating in two or more product markets. Unless a conglomerate firm possesses market power in some market, it cannot have any special advantage over its smaller, less diversified rivals. If it has power in some market, that may become a vehicle to achieve power elsewhere. It may use the excess profits derived in such markets to subsidize expansion into other markets.

Hopkin's reasons for criticizing the competitive standards of antitrust are Schumpeterian. Technology is a compelling force, pushing the scale required for maximum efficiency in production of many commodities beyond the capital and managerial capabilities of most traditional farmers. Minimum efficient size has increased for most commodities, but let's not make the mistake of exaggerating its significance. Economies of scale are not so great that most medium-sized farms cannot do an efficient job of production.

While the evidence is not conclusive, a large number of studies have been made of the progressiveness of conglomerates, their inventing new products and innovating new processes. Scherer concluded that "these findings . . . raise doubts whether the big, monopolistic, conglomerate corporation is as efficient an engine of technological change as disciples of Schumpeter (including myself) have supposed it to be."

The National Commission on Food Marketing studied new product innovation by 25 large food conglomerates from 1950 to 1966. They were in 109 different products in 1950, and by 1966 they had dropped eight of these while adding 108 more, 90 percent by merger. Product diversification doubled in a decade and a half, not because of superior research ability, but through merger.

Schumpeterians argue that conglomerates contribute more to the growth of the economy because of their superior managerial and financial strength. This view may have squared fairly well with the facts during the early postwar years. It appears to have been wide of the mark during the decade of the sixties. Between 1960 and 1967, the share of total manufacturing assets held by the 200 largest conglomerates grew from 54.2 to 58.7 percent. But after acquired assets are subtracted out, their share for 1967 was essentially the same as in 1960. Without mergers their growth rate would have equaled that of smaller firms. Moreover, when the postmerger growth of acquired assets is taken into account, the largest 200 conglomerates have a negative effect on the economic growth of the economy.

Even if the conglomerate merger movement had no adverse impact on competition, narrowly defined, there are compelling reasons for concern on political grounds. I am impressed with the view that is fundamental to the American creed that political democracy cannot coexist with highly-concentrated conglomerates. Henry C. Simons stated this argument forcibly 30 years ago when he observed: "It seems clear . . . that there is an intimate connection between freedom of enterprise and freedom of discussion and that political liberty can survive only within an effectively competitive economic system. Thus, the great enemy of democracy is monopoly in all its forms . . ."

#### Local Economic Impact

I agree with Hopkin that the most important policy problems in rural areas are those related to employment opportunity, community service, and standard of living. Possibly these problems are more affected by the conglomerate movement than has been apparent. Opinion surveys show that a majority of the general public, business leaders, and newspaper editors are unaware of any adverse impact of mergers on their communities. Nonetheless, a recent study of the performance of acquired firms revealed that mergers frequently have an adverse effect on rural Wisconsin communities. Out-of-state firms acquiring Wisconsin companies tend to use fewer professional services in the local communities after merger. They no longer rely as heavily on financial, legal, accounting, advertising, and other service industries in the local community, with a resulting reduction in the employment of professional personnel. A drastic reduction in such service industries may adversely affect a community's ability to attract new firms or to keep existing ones, including commercial farms.

Companies acquired by out-of-state conglomerates had especially poor post-acquisition performance with respect to employment. Their average annual growth of employment from 1960 to the year preceding the merger was 8.4 percent, compared with a post-merger decline of 1.3 percent. This affects off-farm job opportunities.

The departure of top management personnel of the acquired company reduces a corporation's commitment to that community. This may have effects ranging from diminished interest by business officials in solving agricultural and community problems to lessened contributions to 4-H. Of course, the departure of commercial farms in favor of a giant farm conglomerate may have similar effects.

#### Holding Company Banking

Effective agricultural development is often hindered by the kinds of conglomerate financial institutions we allow to develop. Holding company banks control over two-thirds of banking in Colorado. This had increased from 45 percent in 1968, and about five percent in 1960. Holding company banking has flourished as a device for overcoming the state's law prohibiting branch banking. A recent study by the Federal Reserve Bank of Kansas City shows how holding company banks may retard economic development in rural areas. Net flow of funds to parent banks in large cities such as Denver was two to five times that to correspondent banks of independent rural banks. This suggests that independent banking may be more conducive to agricultural development, as more of the independent bank funds are loaned in the rural community. This may have an income distribution effect. Large farm corporations such as Monfort go to the large city money market for multimillion-dollar lines of credit, while the majority of commercial farms are restricted to local borrowing. This suggests that the Farm Credit System must fill the gap if commercial farms are to successfully compete with conglomerates in agriculture.

#### Social Effects on People

Conglomerate growth has moved the U.S. economy steadily toward expert and administrative decision making. Independent decisions by a large number of commercial farm operators are being replaced by group decisions in large organizations. My guess is that today's youth are more concerned about this trend than was our generation, if I understand correctly the point of Reich's manifesto, The Greening of America.

The evidence on the social dimension of conglomerate growth in agriculture is beginning to appear in the farm press. In 1967, Gates Rubber purchased 60 quarter sections of land in a 15-mile radius near the town of Joes, 130 miles east of Denver. They installed sprinkler irrigation equipment. When they sold out last February, an editor at nearby Yuma, Colo., observed a farmer who said: "Maybe this will show big business you have to give land tender loving care."

Another large conglomerate overfarmed, say sources close to the operation: ". . . the entomologist came along and said 'do this' and the drainage man said 'drop everything and do that.' The real farmer was overloaded with high-priced bosses."

It is this sort of administrative authority that Reich's youth of Consciousness III object to, and we can do none other than agree. This seems to be one of the basic problems of conglomerates in agriculture. The editor of the Farm Journal (April 1971) concludes that financially-oriented management really did not understand farming.

Another important social dimension is the fact that farmers have been excluded from participating in large conglomerate decision making. There aren't any farmers on the boards of directors of large conglomerates. The most that can be said is that occasionally they are represented by the head of some farm organization. But he is personally one of the elite. The only place in society where an ordinary farmer or rancher can influence the decisions of large corporations is in regional cooperatives.