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Journal of Cooperatives

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EXTENDED REVIEW ESSAY

American Agriculture and the Problem of Monopoly: The Political Economy of Grain Belt Farming

By Jon Lauck

Thomas W. Gray

This multi-faceted book encompasses a range of ideas, thoughts, and historical accounts of political-economic power related to production agriculture, agri-food firms, and agricultural policy. It delimits a time focus of 1953 to 1980, but covers a much broader period. It provides a geographic focus to the Grain Belt but has implications for the larger United States. While a history, it draws upon philosophy, sociology, and political-economy.

This extended review will introduce the framing ideas of the work, provide summarizing points to each chapter, and offer a brief critique. Unfortunately, the author, Jon Lauck, is not careful in consistently defining and making distinctions among the terms monopoly, monopsony, oligopoly, and oligopsony—at times using them interchangeably. This reviewer will seek to make distinctions in the work, when meaningfully appropriate.

Framing Ideas

While the book is a historical account and an analysis of economic and political power in the Mid-West Grain Belt, it is also autobiographical in the sense that the author introduces the Preface by telling us:

> My family moved off the farm before the worst years of the 1980s agriculture depression. As the descendants of farmers in a farming community, and not far removed from the farm ourselves, we traveled to Pierre, South Dakota, for the big farm rallies at the capitol, hoping to be of some help. . . .While there were

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American Agriculture and the Problem of Monopoly: The Political Economy of Grain Belt Farming, 1953-1980, *by Jon Lauck, Lincoln: University of Nebraska Press, 2000, xiv + 259 pp.; tables, notes, index, $45.00.*

> many explanations for the hard times farmers faced, one that seemed to persist was the alleged abuses of a few powerful economic interests, historically explained as the monopoly problem, the claim that prompted the writing of this book. (p. ix)

Embedded in the work, though more manifest in its beginning and endings, are comments on (1) Lockean liberalism (economic individualism, civil liberties, property rights, and competition), (2) populist republicanism (civic virtue and participation, decentralized economic institutions, and dispersed wealth and land ownership), (3) agrarianism (Jeffersonian democracy dependent on a vital agriculture), and suggestions of (4) the Turner hypothesis (collapse of agriculture and rural life will lead to a collapse of these other values and life orientations). These philosophical comments foreshadow later statements in the "Conclusion" of the book.

Lauck explains "The Problem" as the "monopoly problem." More accurately, he details and questions the behaviors of the limited number of large, dominant buyers of farm production—arguably behaving as oligopolistic sellers, while engaging farmers as oligopsonistic buyers. Presumably the holders of "monopoly power," given respectively large market shares, are able to regulate their own output and/or raise or lower market prices to their advantage. This may be done irrespective of competitor resistance and/or in collusion with competitors. The much smaller, independent family farmer is then subject to the organizational rationalities and market power of these larger actors. "The Problem" then has two related parts: (1) the unequal and disadvantaged bargaining position of farmers, and (2) the lack of competition and oligopoly/oligopsony positions among ag-processing firms. The book is roughly split along this two-part divide. "Corporate Farming," "Meatpacking and Grain Processing," and "The Grain Trading Cartel" are analyses of agribusiness market power. Chapters on "The NFO and Farm Bargaining," "Farmer Cooperative Marketing," and "The State and Agricultural Organization," are analyses of the farmer bargaining position.

The book gives central focus to the 1953 to 1980 era, but draws on much earlier, and much later analyses (e.g., Hoover's agendas and earlier, and 1996 Freedom to Farm Act and later). Closure of the Korean War (1953) marked an ending of World War II era agricultural prosperity, a falling demand for food, record increases in production, and falling prices. A modern era "farm problem" was ushered in. With the election of Ronald Reagan (1980), New Deal farm policies were progressively fragmented, displaced by budget- and consumer-driven priorities. Many new farm organizations were also created during the 1980s farm depression, multiplying the number of interested parties and changing farm politics. Lauck argues that the 1953 to 1980 era is distinct for these reasons, though not due to a diminution of "monopoly problem" questions. The geographic area of analysis—the Grain Belt—incorporates the states of Missouri, Iowa, Minnesota, Kansas, Nebraska, North and South Dakota, and Wisconsin, and roughly approximates the "Old West Territory" states. It was this region that was the base for Turner's analysis of the importance of a frontier (and an agriculture) for maintaining Jeffersonian and populist republican values and principles.

Lauck chooses to ignore concentration ratios in researching anti-competitive behavior and cartel arrangements, stating that such methodology is merely "guilt by correlation, blackboard, and computer" (p. 10). Rather, he justifies drawing on such indicators as (1) stability in market shares, (2) substitutability of products, (3) demand elasticity, (4) foreign competition, (5) barriers to entry, (6) geo-politics, and (7) the ability of farmers to organize in the market place, arguing that the foregoing measures are more congruent with a historical and qualitative analysis of political-economic dynamics.

The author argues, as well, that a central tension in American agriculture—and in the book—has been the pull of two opposing logics: (1) an older, decentralist logic that emphasizes a dispersed ownership agriculture, and (2) a more contemporary, economic-efficiency logic that tends towards and rewards scale and centralization. The author maintains that, historically, this tension has been pushed towards centralization due to the actions (and inactions) of the U.S. Department of Justice and the U.S. Federal Trade Commission. The author maintains that passage of the Sherman Antitrust Act was secured to oppose industrial concentration, to deepen decentralized decision-making, and to disperse power. However, Lauck continues that the intellectual foundations of this tradition crumbled during the 1970s, displaced by economic efficiency arguments, thereby "reducing the possibility of state-imposed de-concentration in the food industries, or of maintaining smaller food firms through a strict merger policy" (p. 40).

While the author personally regrets this shift in emphasis, he offers and supports analyses that resolve around efficiency and competition criteria. In a somewhat loose fashion, the author challenges his boyhood understandings of "the monopoly problem" and losses to family farming. He privileges the economic in his analyses, systematically presenting qualitative indicators of existent competition and efficiency off-setting various suggestions of anti-competitive behavior in the processing sectors.

Processor Power

In three chapters, Lauck addresses competition at the processor level. In "The Corporate Farm Debate," he challenges arguments that changes in the structure of production agriculture were due to a "corporate invasion" by processors and suppliers. He maintains that fears of a "corporate invasion" were fanned by various factors that included (among others): (1) increasing farm scale and consolidation, (2) coincident environmental concerns with changes in scale, (3) reported corporate farming impacts on rural communities, (4) rural out-migration, (5) contracting by processors, (6) a deepening lack of confidence in "big business," and (7) the policies of a "big government." These concerns helped produce a series of legislative responses to limit or monitor corporate farming in the states of South Dakota, Minnesota, Wisconsin, Missouri, Iowa, and Nebraska. However, from a year-2000 perspective, the author states: "In retrospect . . . some [of the then] contemporary warnings about the "emotional appeals" of the anti-corporate farming advocates and the "crisis atmosphere" they created, now seem justified" (p. 20). The author documents that little processor-level penetration into agricultural production has occurred.

By using information on (1) shifts in market shares, (2) changes in consumer demand, (3) substitutability of products (e.g., macaroni versus beef), (4) foreign competition, (5) power of retailers, and (6) barriers to entry, Lauck traces the historical emergence of such firms as Cargill, ConAgra, and Iowa Beef Processors in meatpacking and the displacement of Swift, Armour, Wilson, Hygrade, and Cudahy. In "meatpacking" Lauck validates the posture of anti-trust towards market regulation. While some practices were questionable (e.g., IBP), and some were investigated and charges filed, over all he finds the market was competitive, and firms were pursing efficiency criteria and innovation. He builds a similar case for grain processing, citing the emergence of ConAgra, Cargill, Archer Daniels Midland, and the surpassing of such companies as General Mills and Pillsbury. He argues against monopoly power and market domination by agribusinesses, pursuing instead arguments that document competition and lack of ability to collude, or to control prices and/or production.

This style of analysis is extended in the chapter on "The Grain Trading Cartel." Part of the "monopoly problem" has been attributed to trading firms' ability to control exporting and international trade in grains. Lauck disputes this position, contending that (1) cold war geopolitics, (2) historical government interference in the grain trade (subsidies and import quotas), (3) state trading by other nations, (4) the ability to ignore international agreements on production, (5) increased production by non-cartel members, (6) surplus production, (7) consequent dumping strategies, (8) consumer demands to keep prices low, and (9) ease of entry into exporting all compromised and made unlikely effective cartels. "The extreme difficulties involved in coordinating international commodity markets even with the aid of governments underscores the difficulties of collusion among private firms" (p. 69).

Lauck concludes chapters on agribusiness market power stating, "the competitive nature of the grain trade, as with the processing sector [and lack of penetration into farm production,] cast doubt on . . . half of the monopoly problem" (p. 40). "Food firms did become larger and economically stronger (underscoring the need for farmers to organize and market their products effectively) . . . . Nevertheless, throughout the post war period the sectors farmers sold livestock and grain to, showed signs of competitiveness" (p. 40).

Farmer Bargaining Power

In three chapters on the National Farmers Organization (NFO) and farmer cooperatives and influences of the state, the author addresses the second half of the "monopoly problem": "the unequal and disadvantaged bargaining position of farmers." Borrowing from Galbraith, he introduces concepts of "countervailing" and "relative bargaining power." Using Schneidau, he comments, "when a competitive sector butts heads with a less competitive sector—the competitive sector is the loser in the long haul . . . . market prices become a function of relative bargaining power among adversaries, . . . the answer is to build the farmers' bargaining position—(while using antitrust laws, to remove some of the pricing power of the processors and retailer)" (p. 89).

Lauck acknowledges that the market power of the independent farmer is "intrinsically nil," though he argues that, historically, their collective bargaining position has been considerable. In a similar style to his analyses of processors (i.e., there has been competition), Lauck demonstrates that farmers have not been "hapless victims." They have had bargaining power.

The NFO chapter, in particular, introduces the reader to concrete organizational power and influence of farmers. Relinquishing hope for effective government intervention, lacking confidence in the workings of the market and traditional farmer cooperatives, and threatened by the emerging power of consumers and large food corporations, the NFO initiated several strategies of collective bargaining, for example: (1) holding actions, (2) time-coordinated sales, (3) commodity blocking, (4) direct marketing, and (5) forward contracting. During the 1970s, estimates of NFO membership ranged from 65,000 to 175,000 (p. 95). Agriculture economist Harold Briemeyer testified before the U.S. Congress that the NFO "repeatedly makes sales at $2.00 over the sheet" (p. 94). "The head of the NFO meat department claimed that on some days the NFO collection points marketed more than all the terminals markets together" (p. 93).

Lauck's point is clear. Historically, farmers have had organized bargaining power in the market. So much so, in fact, that during the period of analysis, NFO initiatives drove several other farm-organization agendas for fear of NFO success. Frequently using the

language of the NFO, The American Farm Bureau Federation, Farmers Union, National Council of Farmer's Cooperatives, The National Milk Producers Federation, and other farm organizations supported various forms of farm-bargaining legislation.

Lauck felt compelled in this chapter to also make clear fundamental conflicts and contradictions. Farmers are frequently divided among themselves, across regions, commodities, organizations, and ideologically. Perhaps most central, the author suggests a split between initiatives that embrace individualism and voluntarism, and those with strong, compulsory, top-down aspects. There had been a strong historical tending in the various legislative attempts towards a Wagner (labor)-like bill, supporting a "closed-shop," "regimented" agriculture. These initiatives frequently required compulsory, farmer membership, via an initial farmer referendum. While support existed for these bills, the more top-down control was proposed, the less likely passage occurred.

In the chapter on farmer cooperatives, information is presented on several agricultural cooperatives from the 1953 to 1980 era—for example, Farmland, Far-Mar-Co, Grain Terminal Association, Growmark, Farmers Union Central Exchange (Cenex), and Land O'Lakes—further supporting the position that farmers have held considerable power in the market place. Lauck documents the development of these several organizations, detailing various political and economic influences that contributed to their emergence. These influences included the (1) increasing scale, integration, merger, and conglomeration of competitors, (2) agendas and legacies of differing agricultural and world policies (e.g., Hoover, Roosevelt, Eisenhower, Kennedy, and Nixon), (3) historic farm production surpluses, (4) the consequent need to find outlets in export, and (5) manufacturing. These and other factors pushed increasing scale, merger, and integration among cooperatives, giving them, and their memberships, greater presence in the market place. This path of development has been supported by many, says Lauck, including the U.S. Department of Agriculture's Farmer Cooperative Service, as well as by such experts as Willard Cochrane: "to gain market power in commodities such as hogs, wheat, corn, and beans, an organization must be large-scale, and not 'local in character'" (p. 135). It is pointed out, however, that market presence has, at times, come at the cost of a cooperative that is "impersonal, remote," and involved in activities members know little about.

In a concluding chapter on the power of farmers, Lauck again cites Cochrane stating: "an organization having the purpose of achieving market power for wheat [corn, beans] must include most or all of the thousands of producers involved, hence nationwide in scope. And when an organization must be nationwide in scope involving thousands of producers we have not as yet found any alternative to government action" (p. 149). In "The State and Agricultural Organization," the author describes various attempts—realized and not—to empower farmers nationally, via agricultural policy. The chapter gives light to various political agendas (and actors)—both Democratic and Republican—and the several different interests that intersected in the policy arena: for example, consumers, labor, farmers, taxpayers, the South, the Mid-West, California, cotton, corn, dairy, budgetary interests, international relief, farm lobbies, and ideological conflicts. Lauck argues that the success of the state in brokering through these several interests was weak to moderate during this period. One of the most frequent determinants of policy direction was farmer refusal to accept mandatory production controls, though generally agreeing to voluntary programs (and preserving a sense of relative independence).

In the "Conclusion" to the work, Lauck sums up what, in effect, is an economic critique of his boyhood understanding of the monopoly problem. He contends that the

charges of monopoly against agri-food firms were reasonable (there was considerable concentration), but exaggerated. The processing sector exhibited horizontal competitiveness and little corporate integration into farm production. New firms displaced older firms, feeding and retailing constrained meatpacking, competitive products existed, and grain milling and processing were heavily influenced by swings in prices and production internationally. Farmers were able to organize countervailing power via the NFO, cooperatives, and various lobby groups, as well as by policy.

The author further concludes with a cultural critique of what he terms "urban consumerism." Lauck argues that farming and rural people of the Grain Belt carry particular beliefs in the "philosophy of economic individualism," the "value of competition," and "rights of property," as well as values and behaviors of patience, determination, hard work, honesty, and dislike of government unpredictability and coercion (pp. 165, 170). He suggests a Turner-like thesis—that the collapse of family farming and the viability of small communities have led to a decline in these values and life orientations. Drawing from James Shortridge and Scott Lasch, Lauck states: "The social and cultural changes in America that took place over this era . . . especially the continuing slide into consumerism and narcissism coupled with the depopulation of farmers and the failures of many small towns, contributed to the nation's 'vague sense of loss,' even among urbanites" (p. 175). Lauck suggests that the appeals to anti-trust were defacto protests of the fragmentation of this life orientation, due to the increasing scale and industrialization of agriculture and to the loss of rural communities. Entreating anti-trust and the workings of policy formation (e.g., McGovern, Humphrey, and Mondale) were appeals to earlier understandings and a valuing of decentralization agendas. However, these appeals were ineffective due, in part, to shifts in basic anti-trust positions in the 1970s and a privileging of neo-classical economic analyses, efficiency, and competition criteria.

The Epilogue

The reader, and possibly Lauck, is left at the end of the "Conclusion" perhaps wondering what this book was essentially about. Was Lauck's agenda merely to fragment his boyhood misattributions of the cause of farm loss? Coupling such measures as (1) market share, (2) shifts in consumer demand, (3) substitutability of products, (4) foreign competition, (5) power of retailers, and (6) barriers to entry with indicators of organized farmer power (NFO, farmer cooperatives, and policy initiatives), Lauck argues that there was no monopoly problem. There was competition among processors; processors were not taking over production; and farmers had bargaining power. He further argues that, in the main, antitrust enforcement—given competition measures—was applied appropriately. The calls for anti-trust enforcement were likely expressions of "regret" of a loss of rural community, a more decentralized society, and a basic life orientation (the Turner hypothesis). The reader is left, then, with somewhat of a mystification, in that a "true" telling seems to have been revealed, but perhaps in an exaggerated manner that hides and makes less accessible other truths. Perhaps the author has this sense as well.

In a rather startling reversal, Lauck presents a near contradictory "Epilogue." Going back to the "blackboard," he presents data on concentration ratios, citing specifically 1999 data indicating "that five firms conducted over 80 percent of the beef packing, . . . six firms conducted 75 percent of pork packing . . . and the four largest grain buyers controlled 40 percent of the elevator facilities" (p. 177). He specifically cites Cargill as having a dominant presence in all three markets. He also provides 1984 to 1998 information comparing profitability levels between concentrated agri-business firms and agricultural producers, as well as farm cost/price squeeze data. Lauck offers that this information may indicate the "existence of market power in the concentrated processing sector, and powerlessness of farmers" (p. 177).

Lauck addresses these perceived inequities by shifting discussion to antitrust enforcement, suggesting an insensitivity of the courts. "Antitrust commentary deals almost exclusively with the power of sellers and injuries to consumers" (p. 178). It has not been well used to challenge specific "power-buyer" (monopsony) problems. This is the central relationship in question, between farmers and the buyers of their production. The author then introduces a discussion of court behavior, describing what may be an emerging shift in anti-trust—a "post-Chicago analysis." This approach better incorporates monopsony/oligopsony issues, as well as differing levels of firm sophistication between buyers (processors) and sellers (farmers). Lauck maintains the approach "could substantially alter the outcome of antitrust decisions" involving agri-business firms and farmers (p.181).

Critique

The division in the book from "Conclusion" to "Epilogue" reveals ambivalence in the work that is hard to ignore. In the "Conclusion," the author chides those social critics who speculate why "people haven't revolted and attacked the concentration of economic wealth in capitalist democracies" (p. 169). And using Wills, the author asks "were we really a bunch of fools blind to our own oppression . . . or were we a free people, working to improve our lives, celebrating the successes of a republican form of government that had never worked before" (p. 170).

Lauck argues for what is known in sociological literature as a standpoint epistemology—that those in the socio-economic context in question are best able to describe and analyze their situations. Citing Daniel Bell, Lauck states that "farmers were largely individualist, opposed to onerous statist controls . . . conferring legitimacy on economic change. But their regrets about such changes can be seen in calls for social justice in the polity realm, and in their sorrow over the cultural costs of a dwindling number of farmers and small towns, outcroppings of the American republican tradition" (p. 171).

If we understand aspects of Lauck's work as part autobiographical, we can see a style of analysis congruent with his descriptions of Grain Belt culture. Following strict definitions of monopoly, and using neoclassical economics measures, monopoly power was not found. In a manner of reciprocal validation, since monopoly was not found, then anti-trust actions and inactions, based on economic criteria, were appropriately applied. Lauck's analysis, in the main, validates a non-interventionist posture and is consistent with a life orientation that values competition and individual property rights and tends to confer legitimacy on social change, though in a way that is troubling.

However, others may question his tests on reality and may suggest they tend towards an exaggeration that hides other truths. There are many paradigms or perspectives in justice decisions. Barbara White (1992) in "Countervailing Power—Different Rules for Different Markets," cites four: the atomistic school, the modern market school, the modern populist school, and the Chicago School. She argues that efficiencies can nearly always be found, regardless of conduct of the firm or firms in question.

She also makes comments parallel to those of Robinson (as cited by Lauck), concerning the tendencies of post-World War II businesses to conglomerate. "My old-fashioned comparison between monopoly and competition may still have some application to old-fashioned . . . cartels, but it cannot comprehend the great octopuses of modern industry

. . . More and more, the great firms not only have a foot in many markets but in many industries, in several continents" (p. 49). This complexity makes it extremely difficult for courts to assess "monopoly power" and such predatory practices as cross-subsidization. (Cross-subsidization is an attempt of multi-product firms to defeat competition by setting below-market prices in one product sector and subsidizing losses with profits from others.) While Lauck mentions conglomeration and cross-subsidization, he tends not to emphasize them in his analysis. Though binding, court findings or inactions can hardly be taken as an acid test of no anti-competitive, predatory behavior.

The text demonstrates competition among processors, but competition is not qualified as oligopolistic or oligopsonistic. His strict focus on "monopoly power" as the ability to limit production and raise or lower market prices to a firm's advantage tends to foreclose views on other firm behavior. However, the book is packed with examples that suggest oligopolistic, oligopsonistic competition; that is: (1) differentiation of products via intensive re-processing, packaging, and branding, (2) expansion in plant capacity, and (3) research and development.

A shift in emphasis occurs in the epilogue to "monopsony power" of processors and a re-assertion of producer difficulty to survive. The reader might wonder whether the farmer was meaning oligopsony when speaking of the "monopoly problem." A greater emphasis on this vertical relationship and less emphasis on the horizontal relations of processors may have better addressed questions of displaced farmers protesting at the capitol. Lauck does document NFO and cooperative success. However, we are left in the epilogue with the reality of a sea change in farm numbers, cost-price squeeze data, and conglomerate concentration. More discussion of the limitations of the different cooperative and NFO approaches to address collective, family farm agendas may have been more enlightening. To split off increasing scale and consolidation of farming as essentially separate from agri-business power seems like analysis missed in a work that is both historical and political-economic.

In spite of the work's limitations and internal contradictions, I have deliberately presented commentary that is highly detailed, hopefully portraying to the reader the extensive survey Lauck provides. It is a rich read, but it contains perhaps too many themes not easily accommodated to a few consistent threads. However, I strongly recommend this book to sociologists, economists, historians, and political scientists interested in the structural changes in production agriculture and the intersection of these changes with the agency of industrial organization and politics.

Reference

White, Barbara Ann. 1992. Countervailing power—Different rules for different markets? Conduct and context in antitrust law and economics. *Duke Law Journal* 41 (April):1045.