

# AGRICULTURE — ELEMENTS OF ITS FUTURE CONTROL

A discussion of questions on ...

- OPEN MARKETS
- INTEGRATION: CONTRACTS
- OWNERSHIP OF LAND
- COOPERATIVES
- CORPORATE FARMS
- INCORPORATION
- FAMILY FARMS

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Cooperative Extension Service  
The Ohio State University

## PREFACE

In the winter of 1973-74 a series of 12 meetings on "Who Will Control U.S. Agriculture?" were sponsored by the Ohio Cooperative Extension Service in which 1,200 farm and agribusiness leaders from all segments of Ohio's agriculture were represented.

The program was directed at creating awareness and improving the dialogue about changes in the structure of farming and shifts in market organization bearing upon the issue of future control of the food system. After exploring some of the factors and trends bearing upon the control issue, the consequences of various alternatives to farmers, consumers, agribusinessmen and communities were analyzed. This was done by choosing distinctive and alternative economic systems of:

1. An independent farmer in an open market
2. A corporate system
3. A cooperative organization
4. A government dominated program
5. A combination system

To facilitate analysis and discussion each alternative was assumed to be the dominant system.

This publication includes a review of the changing farm structure and market organization and identifies the basic concerns. A very brief resume' of each alternative is followed by a major section discussing the questions asked in the series of 12 meetings. Asking the questions were farmers, farm organization representatives, agribusinessmen and community leaders. The responses to the questions are brief and perhaps over simplified because of time and space limitations. Some questions require factual answers but many require value judgements.

More detailed information on the issue and alternatives is available in the leaflet series "Who Will Control U.S. Agriculture" NCR 32-1 through 32-6 published by the University of Illinois--Urbana-Champaign but available at your Ohio County Extension Service office. Another reference widely used in this educational program was a basebook entitled, Who Will Control U.S. Agriculture--Policies Affecting the Organizational Structure of U.S. Agriculture, NCR-32 published at the University of Illinois--Urbana-Champaign.

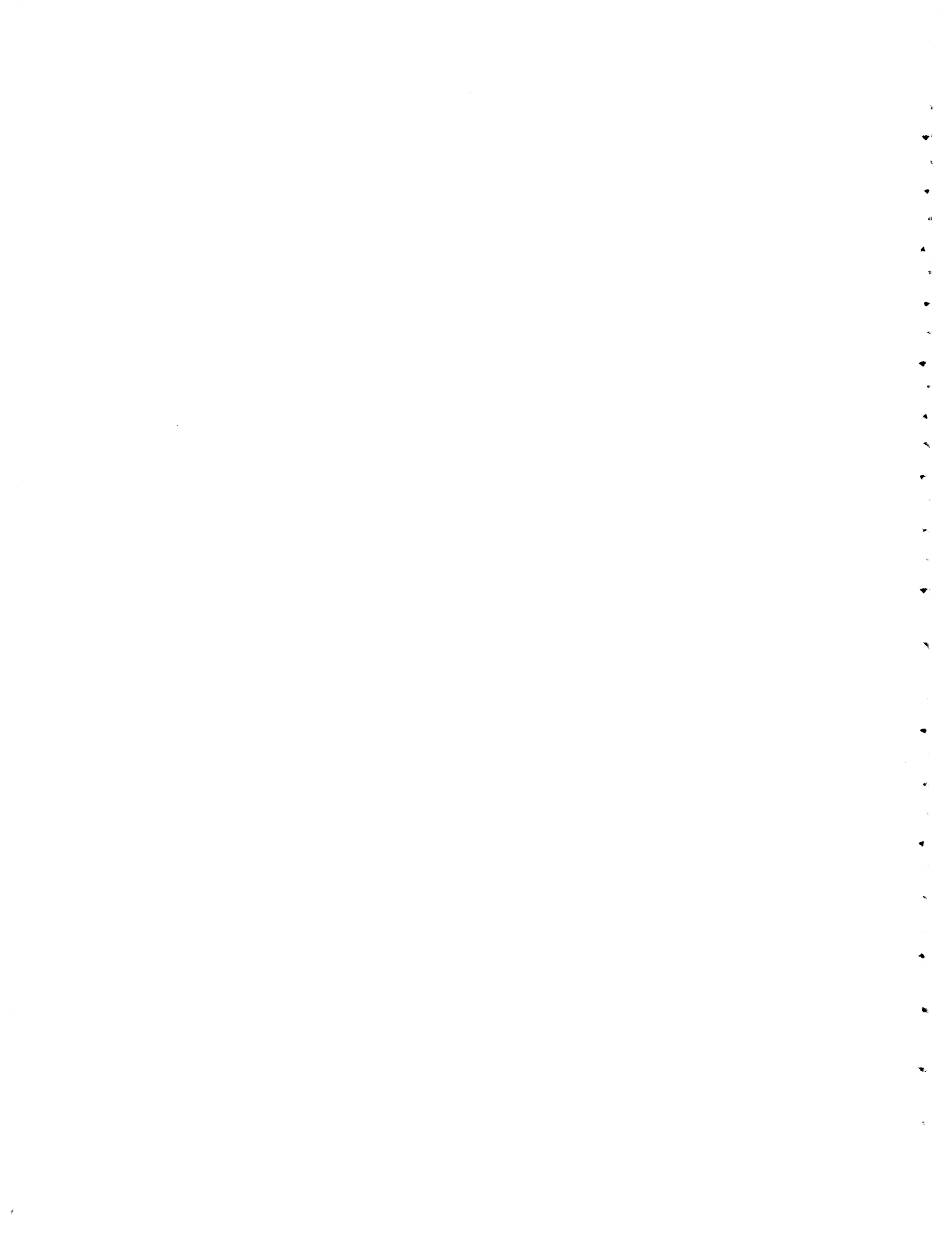


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Wallace Barr, Extension Economist, Marketing Policy

## CHAPTER 1

### THE CHANGING STRUCTURE OF AGRICULTURE

by  
Wallace Barr\*

Historically, farming has been organized in many ways and is organized differently in different parts of the world today. For example, farms range from the minifundia to the semi-feudal estates in South America and from the fragmented hereditary plots of Europe to large corporate farms in the Southwestern part of the U.S. and to the huge state farms in the Communist world.

In much of the U.S. a small unit proprietorship system has prevailed. We, in the U.S. are moving from a dispersed system of a small unit proprietorship type of farm organizational system towards its opposite--concentration in both production and market organization. If this is the way we want agriculture to go, that's one thing--if we don't it's quite another. There is concern that concentration will happen before enough people are aware of what is taking place.

So, what kind of world do you want to live in? Does your wish fit better with a dispersed system of farm production and marketing or a concentrated one? Will farmers collaborate with each other in making the rules jointly? Or, will farmers' individualism permit control of agriculture to shift into other people's hands?

#### What Do We Mean By Control of Agriculture?

Control is closely related to decision-making. People in general, and farmers in particular, place a high value on their decision-making role. When farmers were numerous and had more political power, they controlled U.S. agricultural policy and the organizational system. Everyone knew who would make the decisions in agriculture--farmers. They ran the farms, controlled farm organizations and elected Congressmen.

Control is shifting and is increasingly being vested in those individuals or firms that make the buying, selling and producing decisions because they: 1) have control of the resources used in agriculture, and/or 2) have access to markets for selling their products, buying supplies and the technical information. The access portion may be the more important consideration in the control issue.

#### The Present Farm Structure and Market Organization

The dispersed individual farm proprietor (even though he may be incorporated), still is the predominant form of farming structure. We are talking about farms where half or more of the labor is performed by the operators and their families. Family operated units account for 65-75 percent of total farm marketings today. Even so, delivery under production contract, integration and corporate operations are responsible for increasing proportions of farm output and now account for 20-25 percent of total marketings. Industrial type farming corporations account for 8 to 15 percent of the total value of U.S. farm marketings.

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It is quite evident that a decline of the open market system has occurred. Central markets have disappeared for some commodities and are fading away for others. Replacements include direct selling, formula pricing, contractual arrangements and/or vertical integration. Central markets for livestock are losing ground but commodity markets for grain survive.

The organization of our present food and fiber system varies by origin and by commodity. The last census showed that small farms selling under \$10,000 constituted 65 percent of the total number, but they sold only 11 percent of the farm products. At the other extreme 8 percent of the farms each selling over \$40,000 in farm products accounted for 66 percent of the total farm revenue. The bulk of the farms (98 percent) were organized as individual family or partnership units. Many incorporated units are often of moderate size and family operated.

There was a wide variation in the proportion of total production of different commodities coming from specialized farms with product sales of \$40,000 or more (Table 1). Furthermore, concentration of production of various enterprises has proceeded at differing rates.

Table 1: Concentration of Farm Output on Large Size Farms, U.S.  
(\$40,000 or more sales in 1964 and 1969)

Type Farm	1929 <sup>1/</sup>	1964	1969
Vegetable	20.0	81.4	82.5
Poultry	3.3	67.9	82.9
Fruit & Nut	19.9	67.6	68.9
Cotton	1.4	55.2	56.5
Livestock	2.1	46.8	62.6
Cash Grain	1.8	23.9	38.9
Dairy	3.0	23.4	42.2
Tobacco	--	--	--
Total	5.0	43.7	57.1

<sup>1/</sup> \$30,000 sales which were equivalent to \$48,500 in 1964.

Wide differences have developed in the production and marketing organization of different commodities. We find 100 percent of the sugar cane and sugar beets, 92 percent of the broilers, 95 percent of the processing vegetables, 85 percent of the citrus fruits, 80 percent of the fluid milk, 70 percent of the potatoes and 54 percent of the turkeys were produced under production contracts or vertical integration. Vertical integration means that one firm controls more than one step in the production and marketing process. At the other extreme, less than 1 percent of the feed grains, 2 percent of the oil seed crops, 3 percent of the food grains and 3-5 percent of the hogs were produced under contracts or integration.

Between 10 and 49 percent of the cotton, non-citrus fruits, eggs, fed cattle, sheep and manufacturing milk was produced under contract.

In total farm sales, it is estimated that 20-25 percent are marketed through some form of integration. This is heavily weighted by milk and specialty products. The predominance of grain and hog production, which have not undergone drastic

changes in production and marketing organization, places the Midwest in a unique position. The individual farm operators in the Midwest can still more easily consider production and marketing organization alternatives than can producers in some other parts of the country. Those regions producing products in which a high incidence of contracting, integration and corporate structure prevails are not likely to revert to a system of freely accessible markets.

#### Pressures For Change in Farming and Marketing

There are numerous persistent pressures for volume production and reorganization of the marketing system. Some are:

1. Increasing technical complexity and specialization of agricultural production leading to increasing farm size.
2. Increasing labor costs that contribute to mechanization and larger size operations.
3. Increasing certainty in annual productivity increases along with improved credit practices that make it possible for larger size firms to assume greater risks.
4. Improved managerial capabilities.
5. Scarcity of highly productive farmland coupled with the need for nonfarm uses.
6. Effects of tax laws and rules making it easy and advantageous for those with capital to acquire land.
7. Unwillingness to carry price risks.
8. Desire to sell inputs which leads to integration.
9. The desire of firms to assure a reliable supply of farm products of a known quality that bring pressures to align with business organizations based upon merchandising strategy.

The consequences of more centralized control of production and marketing would differ for producers, for firms supplying production inputs, for firms marketing and processing products, for rural communities, and for consumers. The loss of power, fear of economic domination, erosion of rural values and the uncertainty of the consequence of the changing organizational system for agriculture gives rise to the issue about who will control U.S. agriculture.

#### Some Manifestations of The Issue

A whole set of related issues are emerging publicly and in legislative halls around the question, "Who will control U.S. agriculture?" Some of these manifestations include:



1. Concern about the takeover of large tracts of land by nonfarms, businesses and its effects on present farmers, businessmen and communities. A manifestation of this concern is the legislation before Congress to preserve the family farm. The Family Farm Act would keep nonfarm corporations out of farming. The legislation would prohibit ownership and leasing of land, as well as contracts or integrative schemes.

2. There is concern over integrators or large buyers imposing various conditions on a "take it or leave it" basis through specifications, discount or premiums, delivery schedules and product specifications. Those on the "inside" may feel at the mercy of buyers while those "outside" see the threat of reduced market access. A visible manifestation of this concern is bargaining legislation before Congress that is intended to strengthen producer groups and provide countervailing forces in dealing with the firms that buy their products.

3. A third manifestation is the revival of interest in farm cooperatives as a means of achieving some economies of size and market strength on the input side of farming, the output side, or both.

4. Another manifestation is the concern about tax savings provisions that favor higher income people investing in farm land.

#### What Is The Policy Issue?

The basic issue is "What type of farm production and marketing organizational system is to prevail?" and "Who will control it?" It is not concerned with keeping things as they are--this would neither be possible nor desirable.

A leading Ohio farmer recently said, "Integration and coordination will increase. The concern of farmers is, who will control it? Will integration and coordination be backward or forward? Who is to have the decision-making role?" These are very fundamental questions. Others are expressing similar concerns. One is Secretary of Agriculture, Earl Butz, who recently said, "The question of who will control farming in America is the issue which agriculture must face in this decade."

Farm operators may be more concerned than others at the present over this issue because they are faced with a combination of two developments. They are: 1) the increasing size of farms and concentration of production, and 2) greater involvement of forces outside of farming to coordinate production through ownership, contractual or integrated arrangements.

#### Farmer Apathy

What the rules shall be and what input farmers have in determining these rules is a basic part of the policy issue. There is some reason for pessimism in what farmers will do. Farmers are extremely competitive among themselves and among farm organizations. Generally, farmers are more interested in buying out neighbors than in their collective well being.

But rule making is a collective activity. Internal infighting between farm organizations reduces the probabilities of securing legislation that will help establish the rules by which the food and fiber production and marketing system will operate. The ability to work together will be severely tested in the next decade. There is some time for debate--maybe the 1970's. But it will be resolved in the 1980's or it is likely that farmers, farm organizations and society will have left control of the food and fiber system concentrate in the marketing sector.

## Framework For Analysis

There are various ways one might analyze this issue. It could be approached through establishing alternatives around: 1) production, 2) input purchasing, 3) product marketing, or 4) others.

The analytical framework chosen is one that centers on organizational control of the production and marketing system. The systems to be discussed are: 1) independent farmers in an open market, 2) a corporate agriculture, 3) a cooperative marketing system, 4) government intervention, and 5) a synthesis--or combination.

Any system of analysis chosen will be an oversimplification of a very complex issue. We will assume each will be the dominant system to expedite analysis, to develop understandings and to improve discussion. This is no different than using capitalism, socialism and communism and fully recognizing that none of these economic-political systems exist in the pure form.

The intent is to alert people to the issue and to help start the dialogue on what many consider a vital issue.

## CHAPTER 2

### A DISPERSED OPEN MARKET AGRICULTURE

by  
Herbert H. Hadley\*

A dispersed open market agriculture is a possibility for the future but major changes in present policies will be needed if it is to be the dominant organizational form. It will not be uniform by region or commodity. This possible choice is neither stereotyped nor static.

#### Basic Features of the System

The basic features of this system are modest size farms, freedom of the operator to make decisions and the existence of an open market. The open market is essential for the purchase of supplies and sale of products. Contracting for future delivery or the use of a voluntary marketing co-operative would be acceptable. Market information is also a requirement.

Landholding is in modest sized farms. Ownership of land is not essential, but generally they will be owners of at least part of their farm operations. The farm unit needs to be efficient.

Finance capital is controlled by the operating farmer either from his own assets or from borrowings that do not transfer his managerial authority to the lender. Provisions for the entry of capable young people interested in farming may be provided.

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In a dispersed farming system, management choices remain in the hands of the operating farmer and no external agent can deny him access to resources, inputs or markets. He also needs to have technical information readily available, as well as, public support for minimum necessary services.

An operating farmer in this system is a composite person: laborer, manager, financier. Probably he would be somewhat better off in terms of both the distribution and the absolute level of income compared with systems in which farmers are contracters or laborers. He will lack market power since he will probably be reluctant to give up freedom to gain it.

The rural community would benefit from the dispersed system. Consumers might be as well or better off under a dispersed than any other system even though food prices may be less stable. Taxpayers cost might be the highest under the dispersed system because of the costs associated with maintenance of an open market system.

### Policy Action

Policy needs include: 1) maintenance of a market information and retrieval system, 2) assurance of a competitive system, 3) access to an open market for farm products, 4) ending unwarranted large volume discounts or premiums on price side, 5) develop and disseminate research continuously to all producers.

Additional policy action to develop a competitive credit system for all producers, extension of social welfare programs to farmers, and elimination of tax advantages to large land owners and to integrators might be considered.

Large numbers of individual farmers must be able to make management decisions and not be taken over by creditors, input suppliers or purchasers of raw commodities. Giantism and market control must be prohibited in any form. The system must be "tilted" in favor of individual farmers in terms of credit, access to markets and technical information.

### INFORMATION ON THE DISPERSED SYSTEM

2-1 DON'T WE ALREADY HAVE ENOUGH SAFEGUARDS IN OUR FEDERAL GOVERNMENT TO GUARD AGAINST THE LOSS OF THE OPEN MARKET SYSTEM?

Apparently not, since open markets have essentially disappeared for some commodities and the volume marketed is rapidly shrinking in others.

2-2 GIVE EXAMPLES OF WHERE WE LACK AN OPEN MARKET SYSTEM.

Open markets do not exist for products that are produced today under some of our contractual arrangements or closed systems of trading farm products. Examples are: sugar, canning crops, milk, and live broilers.

2-3 WILL PRICES OF RECENT YEARS CHANGE THE TRENDS IN CONTROL AND CONCENTRATION? IF SO, IN WHAT DIRECTION?

Recent higher prices will tend to accelerate the concentration of agricultural production and marketing and make the question of control more crucial at an earlier time. Likewise a decrease in farm profits either from lower prices or combined with higher costs could slow down changes in farm organization and market coordination. Low prices and desire to shift risk encouraged integration in broilers, eggs and turkeys.

2-4 WHAT IS AN AVERAGE OR MODERATE SIZED FARM?

It is difficult to define in terms of acreage. What we are describing is a farming unit primarily under the management of one or two men. There might be two, three, or four men involved on the farm. It could be a family incorporation. But in terms of the managerial control, it is one unit. We are describing a system of farming that is quite common in the Mid-West.

2-5 WHY IS THE FAMILY FARM DECLINING AND MAY BE DISAPPEARING?

Family farms are declining in number and may be disappearing for several reasons. They are not big enough to produce a volume of goods at current prices and costs to provide a satisfactory income. This may be due to lack of size, capital, or management. Since it takes more land, capital and skill in today's agriculture we see farm mergers and consolidation into bigger and bigger units. In the midwest they are still largely family farms. In the very long run this process may lead into a landholding class in the U.S. which may or may not be farmers.

2-6 WHERE DOES THE FAMILY INCORPORATED FARM FIT INTO THIS PICTURE?

The two-three man farm incorporation is a part of this system. The family incorporation may be helpful in several respects. It may provide the framework for farm expansion for several family members. It may provide the method for transfer of the farm from one generation to the next. It may provide the opportunity for the young farmer to get started. Before choosing farm incorporation, study it carefully with the aid of your area farm management agent, county agent, and professional or legal help.

2-7 WHAT ARE THE TAX ADVANTAGES TO LARGE AND WEALTHY LANDOWNERS?

Rapidly rising land prices become a windfall profit to the owner when the land is sold or transferred. To the new producer, higher land prices become a part of higher production costs. The chief tax advantage has been paying capital gains taxes on the land appreciation rather than on income. In the long run, this leads to the possibility of developing a landowning class in the U.S. Some of the previous advantages have been reduced through changes in tax laws and regulations. There are additional taxing alternatives being discussed.

2-8 HOW WOULD THE DISPERSED SYSTEM PROFIT VERY LARGE LANDHOLDINGS AND WHAT ARE THE TAX ADVANTAGES?

The large landholder would benefit under the dispersed system to the extent that some scale efficiencies or savings in purchasing inputs or selling products are present. Some estimates have placed these as high as 20 percent on net income per acre. Size provides for some volume handling savings, but alone would not be a factor in the dispersed system. Tax advantages should not differ substantially between small and large farms on a per unit (acre or valuation) basis. There are constant complaints and citings of tax advantages to larger owners. Past and potential changes in income, inheritance and estate tax laws are evidence.

- 2-9 ARE ABSENTEE, NON-OPERATING OWNERS MORE COMPATIBLE OR LESS SO THAN OTHER SYSTEMS WITH "DISPERSED OPEN MARKET?"

The non-operating owner can be compatible with several systems. He could rent his land under any of the systems. A major and distinguishing feature of the dispersed system is that the owner-operators are the dominant group but an open market mechanism must be an integral ingredient of this system.

- 2-10 IS IT DESIRABLE AND CAN WE ABANDON VOLUME DISCOUNTS TO LARGE OPERATORS?

Volume discounts can be desirable where justified since they reduce costs. For example, the price per ton for a truckload or a carload of fertilizer or other inputs delivered to one buyer should be less than the per bag or per ton price. Such savings can be passed on to the producer-consumer of the input.

- 2-11 WHAT ARE UNWARRANTED VOLUME DISCOUNTS?

Volume discounts are based on reducing the cost of a purchased input because of per unit efficiencies. Unwarranted discounts are greater than justified on strictly the volume handled and costs incurred. These happen when one firm has market power or may be due to favoritism.

- 2-12 DOESN'T THE ROBINSON-PATMAN ACT ALREADY TAKE CARE OF UNWARRANTED DISCOUNTS?

The Robinson-Patman Act of 1936 was for anti-trust enforcement. It states that prices may not be discriminatory. Unwarranted discounts might be discriminatory. Differing discounts to different sized dealers were ruled as discriminatory and the feed mixers in the case agreed to cease and desist from offering such large discounts that smaller dealers could not compete with them.

- 2-13 IS IT NOT TRUE THAT ONE OF THE WEAKNESSES OF A DISPERSED OPEN MARKET SYSTEM IS A COMPARATIVE WEAKNESS OF THE INDIVIDUAL IN COMPETING WITH VESTED INTEREST GROUPS INVOLVING POWERFUL INTERESTS WITH GREAT LOBBYING POWER?

Many dispersed farm units will not be able to speak as one voice, and in this sense reflects weakness. But farms have a long history of influencing decision makers. Dispersed farmers do lack market power but some value freedom highly.

#### DECISION MAKING AND CONTROL

- 2-14 WHO IS INFLUENCING FARMERS IN BUYING AND MARKETING--THE FEDERAL GOVERNMENT, NONFARM PRESSURE GROUPS, EXTENSION, FARM MAGAZINES, LAND GRANT COLLEGES?

Individual farmers are influenced in their decision making by people at different times and for different decisions. All these you mention are of some but varying importance. We hope attendance at this workshop proves to be a factor or influence in starting thinking through the many facets of farm organization and market control and its profound influences. A number of studies have been made on where farmers get their information. Leaders in this type workshops are an important source of information to other farmers and businessmen.

2-15 COULD WE HAVE A "FREE" AND OPEN MARKET SYSTEM WITHOUT GOVERNMENT REGULATIONS?

Government regulations are necessary if an open market is to exist. The government needs to "referee" any economic system. If we want to retain or to re-establish open markets where they may disappear or have already disappeared we may need to require minimum amounts of a commodity to be traded in an open market of one type or another. There are mechanisms to provide alternative mechanisms to do so providing it is deemed desirable.

2-16 WOULD A DISPERSED SYSTEM BECOME A GOVERNMENT CONTROLLED SYSTEM DUE TO THE FACT THAT IT WOULD NOT BE ABLE TO ECONOMICALLY COMPETE WITH A CORPORATE SYSTEM AND THEREFORE WOULD REQUIRE GOVERNMENT CONTROL?

If the dispersed open market system is to persist it must be efficient and able to compete. There needs to be some government assistance in maintaining and providing rules for the dispersed system to survive. But this is quite different than government control of the system.

2-17 WILL THE INDEPENDENT FARMER IN THE DISPERSED OPEN MARKET SYSTEM HAVE AN EFFECTIVE VOICE IN GOVERNMENT POLICIES AND CONTROLS?

He can if he is effective in working with and through his farm organization or interest groups. Collectively working together they can be heard but they cannot dominate the political arena as once was the case.

2-18 CAN WE SURMOUNT THE OBVIOUS INEFFICIENCIES OF THE DIVERSIFIED SYSTEM?

The independent farmer in an open market in the midwest will be able to compete at an efficient level as long as he has access to markets, capital, information, and can make management decisions. It has demonstrated its ability to survive as an economic entity. However, the system may need some "tilting" if producers are to have alternative markets in the future. New market techniques and mechanisms and reorganization of open market system may reduce the market inefficiencies in the dispersed system.

2-19 WOULD LEGISLATION, TO REVERT BACK TO A DISPERSED-OPEN MARKET SYSTEM FOR ALL PRODUCTS, FOSTER INEFFICIENCY?

The policy goal would be to provide all individuals an alternative market. The dispersed open market is a method to provide market access. We still have a dispersed-open market system in some commodities and areas. Legislation could help implement the dispersed-open market system as a dominant form. But we would not necessarily revert back to an earlier period. It does not mean production inefficiency. There may be market inefficiencies but the trade-off between market efficiency and other values are such that many people feel open markets should be preserved.

2-20 DOES THE SMALL FARMER HAVE THE WHERE-WITH-ALL TO CAPITALIZE ON AND COMPREHEND THE TOTAL AND VERY COMPLEX MARKETING SITUATION?

We are trying to help people comprehend the market organization that is evolving. Whether people are motivated to provide additional capital in off farm investments to cope with his marketing problems is questionable. He will need to devote not only money but much effort to develop strategies that enhance his position. The strategies might be market strategies or political strategies. The political strategies can provide the economic rules by which we play the ballgame. It can be done; if not done people will have left control of agriculture shift to the market sector.

2-21 DOESN'T A DISPERSED SYSTEM REALLY OFFER WHAT WE WANT?

Central to a dispersed system is the freedom of the operating farmer to make management decisions. Farmers have to weigh this freedom against income and other values. The family farm has been a rallying point for all farm organizations.

2-22 WHY NOT PROMOTE A MERIT SYSTEM AND ENCOURAGE COMPETITION?

The dispersed open market system is a merit system and encourages competition. One of the basic features of a concentrated agriculture is to attempt to gain a bigger share of the market and more power and control over the system. This is the case whether it is a corporate or a cooperative centralized system. A more combination system where all are allowed to exist and compete may be to your liking.

2-23 HOW DO FARMERS GET THE CONTROL THEY NEED TO DEVELOP THE TYPE OF MARKET SYSTEM THEY WANT?

Farmers get the type of market system they want through the political system. The problem is to get consensus on the system desired and the power to implement it.

2-24 WHY WOULD TAXPAYERS NEED TO FUND SOME PROGRAMS UNDER THE DISPERSED SYSTEM?

Public services such as crop reporting, market news, research, extension, etc. are an important factor and a necessary ingredient in the dispersed open market system where no individual has the power to influence supply or price. The lack of information would speed up the disappearance of the market system. Under a more centralized system these services might be eliminated or carried on by the marketing firm rather than as a public service. For example, what would you do if no price quotations were available?

2-25 HOW IS THE FAMILY FARM BEING TRANSFERRED FROM ONE GENERATION TO ANOTHER? WHAT IMPLICATIONS FOR THE CONTROL OF AGRICULTURE?

The family farm is generally transferred equally to all members of the family. Many times the increased value resulting from the family member who remains on the farm is not counted. Unless provisions are made to provide a cash or equity share to other family members, the farm is sold to settle the estate. This may break it up as a viable commercial unit. Plans for avoiding this are possible through estate or farm transfer planning. Farm incorporation has been a device to ease transfer methods. Thus tax laws become a factor in who owns land and eventually the control of agriculture.

2-26 CAN ANYTHING BE DONE IN THE AREA OF ESTATE TAXES TO ALLOW FAMILY FARM UNITS TO BE TRANSFERRED TO THE NEXT GENERATION?

Yes, estate planning is an important device in the transfer of farm enterprises. An important ingredient is estate taxes, wills, etc. Policy-wise there are alternatives on estates and inheritance taxes that may need revisions. Some materials are being developed for lay use in meetings.

2-27 HOW DO YOU CONTROL THE LARGE OPERATOR AND NOT HURT THE SMALL?

This is a problem. The large operator can still be a family operated unit. The tax advantages for one apply to the other. It is a difficult problem, but changes in income and other tax laws can influence size and the future control of agriculture. What many object to are advantages through tax shelters, capital gains, etc. that give some people advantages.

POLICY ACTIONS AND SOCIAL CONSEQUENCES

2-28 HOW CAN RULES BE "TILTED" FOR FARMERS WHEN FARMERS ARE ONLY 4-5% OF THE POPULATION?

Farmers still have political clout as a minority. They represent a sizeable tax base, source of food, have lots of political experience and organization. Minorities of all sorts do and can secure legislation providing they have a program that provides equity, justice, etc.

2-29 HOW WILL THE LAWS TO ATTAIN THIS SYSTEM BE PASSED? IN REALITY, IS IT POSSIBLE FOR THEM TO BE PASSED? TO ELIMINATE TAX ADVANTAGES? EXCLUDE WEALTHY PEOPLE FROM OWNING LAND, ETC.?

Laws are made by men, therefore they can be changed by them. If changes occur, it will be through the organized, purposeful actions of farm groups in the legislative arena and must be acceptable to society and the court system.

2-30 IS THE SORT OF LEGISLATION REQUIRED TO ASSURE A DISPERSED SYSTEM LIKELY TO INFRINGE UPON OWNERSHIP RIGHTS AND THEREFORE BE UNCONSTITUTIONAL?

Most of the legislation suggested in Leaflet 2 is what might be called an "acceptable type." The suggestion of restricting land ownership to farmers would require major legislative change. Property rights are held in high esteem. Any very restrictive devices would likely be tested in court.

2-31 HOW CAN YOU LIMIT LAND OWNERSHIP WITH OUR GOVERNMENT SYSTEM?

Some basic changes would have to be made in our present laws if ownership of farmland would be limited to operating farmers. There might need be some specifications. For example, licensing of farmers has been proposed for farmers. Ownership could be defined as well. In some western European countries, minimum size farms are legislated. Whether or not society would support such a change is questionable.

2-32 INSTEAD OF ADDING SOCIAL WELFARE PROGRAMS FOR FARMERS, SHOULDN'T WE BE CONSIDERING LESS WELFARE PROGRAMS FOR THE REST OF THE PEOPLE?

This question has to be answered by society. There are both proponents and opponents to this viewpoint. Some think we should expand benefits, others that we should cut them back. The trend for many years has been towards more rather than less social welfare programs such as social security, unemployment insurance, workmen's compensation, medicare, etc.



2-33 HOW ABOUT WORKMEN'S COMPENSATION AND ITS EFFECTS ON FARMERS?

In Ohio workmen's compensation has been a factor in agriculture but recent changes mean it will be a factor of growing importance. The new regulations requiring everyone to be included when payments exceed \$50.00 in one quarter mean an additional management-accounting task. It means benefits to farm workers similar to non-farm workers and moves farm wage and costs closer to that of non-farm workers.

2-34 WHAT EFFECT WILL EXTENDING WELFARE PROGRAMS HAVE ON PREFERENTIAL TAX TREATMENT FOR FARMERS?

They may be inversely related. One of the effects of higher mandated costs is high direct consumer costs and through taxes paid by farmers. There is a tendency for agriculture to be treated more like other industries with fewer exemptions for agriculture being granted. Since it is becoming more difficult for agricultural to receive preferential treatment the effect on farmers is to pay a new type of operating cost with the consequent management effort.

2-35 WHAT WELFARE PROGRAMS WILL BE OFFERED TO FARM OPERATORS?

Farmers and farm laborers will be increasingly made eligible for welfare programs just the same as all other citizens. However, some programs such as workmen's compensation, unemployment insurance, and food stamps are programs that have either excluded agricultural workers or there has been minimal eligibility and participation. Agricultural workers and farm operators will be included in more of these programs in the future. For example, some farm operators and laborers will be eligible for food stamps. Some may use them, too.

2-36 CAN EXTENDED WELFARE BENEFITS TO WAGE EARNERS SUBSTITUTE FOR EARNED WAGES?

A little. Farm wages are tending to move closer to non-farm wage rates. Additional benefits from labor legislation will be in addition to wages rather than a substitution for higher pay. Such employee benefits should make agriculture more competitive with other employers of labor.

2-37 HOW CAN YOU GET THE COAL COMPANIES TO LET LOOSE OF SOME OF THEIR VAST HOLDINGS?

Under present laws, coal companies will continue to hold land. Further study and research is needed on what is and should be included in land rights. Some changes in laws would be necessary before the situation changes.

PRICES AND COMPETITION

2-38 HAS NOT THE SUPPLY-DEMAND EQUATION IN THE PAST USUALLY PRODUCED AN OVER SUPPLY AND LOW PRICES?

True. But it has also produced relatively high prices in the past few years. In an open market, we can expect wide swings in farm prices as farmers respond to good or poor profits. What you are saying is that some people are not sure they like this.

2-39 WILL THE SUPPLY AND DEMAND SYSTEM NOT WORK TO THE ADVANTAGE OF THE FARMER?

If we have an adequate open market system, supply-demand will determine price through buyers and the sellers competing in the market. This exists for a few farm products. However, there is evidence that many farm products are not sold in an open market and for some products, an open market no longer exists. In other words a closed system exists for some products.

2-40 U.S. FARMERS MAY BE PRICING THEMSELVES OUT OF BUSINESS IN ONE COMMODITY-- TOBACCO. WE ARE ABLE TO BUY OFF-SHORE TOBACCO MUCH CHEAPER AND THE QUALITY IS GETTING BETTER EACH YEAR.

This may happen in other commodities. There are competitive products from other domestic or foreign production areas as well as substitutes that limit prices.

2-41 WHAT ABOUT STABILITY IN FARM AND FOOD PRICES?

Cyclical prices in agriculture are one factor. With very low or no government reserves, price fluctuations and uncertainty become greater and these factors are reflected in food prices. Discussion is increasing relative to grain reserves to provide for emergencies. Who will do the storing-- farmers, government, foreign firms or others--and who pays are important factors.

2-42 WHAT WOULD BE TODAY'S PRICE OF MILK TO DAIRYMEN IF WE HAD A COMPLETELY DISPERSED OPEN MARKET SYSTEM? ARE MARKETING ORDERS CONSISTENT WITH AN OPEN MARKET?

It is hard to say what the price would be on your assumptions. But today's milk pricing is based on differentiating the market. The federal order permits milk sales for different uses i.e., fluid, manufactured, etc. The blend price is then determined on the basis of this use. The manufactured or base price is supported by a government floor so it is not an open market price. The Class I price is a negotiated price based on the added cost of producing fluid vs. manufactured milk. The average price of milk in the absence of marketing orders and negotiated premiums would be less than it is today. In principle, marketing orders can exist in the open market dispersed system if they actually reflect differences in producing differentiated products and prices reflect the value of these products.

2-43 WHAT ADDITIONAL COSTS CAN YOU PREDICT OR EXPECT FARMERS TO ABSORB AS A RESULT OF EPA RESTRICTIONS OR LAWS?

We have a high probability of additional costs in animal waste disposal, handling crop residues, and soil sediment runoffs. Feedlots have been closed down where runoff gets into streams. Some elevators in Ohio have been cited for air pollution. Air pollution from livestock odors and feed grinding are other causes for added expense. Only in the shortrun will farmers or businesses absorb these costs. Eventually these added costs will be included in higher farm prices and passed on to consumers as higher food and fiber prices.

MISCELLANEOUS

- 2-44 THE NEW ATTITUDE OR AWARENESS BY THE CONSUMER TOWARDS THE AVAILABILITY OF FOOD IS SOMETHING DIFFERENT THAN THE LAST 10 TO 20 YEARS. WILL CONGRESS ACT FAIRLY FAST OR WILL CONGRESS TAKE SEVERAL YEARS TO COME UP WITH A NEW PHILOSOPHY?

Congress has acted by the passage of the basic legislation entitled The Agricultural and Consumer Protection Act of 1973. Both farmers and consumers interests are recognized by the use of support prices and target prices. Other legislation passed and pending recognizing consumers rights. This interest and direction is likely to continue with interest in food reserve policy plus export embargoes and relaxation of import quotas as evidence of new concerns. It usually takes Congress quite a long time to act.

- 2-45 HOW MUCH EFFECT WILL OTHER COUNTRIES HAVE ON CONTROL OF AMERICAN AGRICULTURE?

Other countries will have some effect but it may be overstated. To advantageously trade with foreign buyers, large quantities of a product need to be readily available at all time. This may hasten contractual arrangements in grains now traded largely in an open market. Foreign ownership are worrying lots of people. These questions are more appropriately and extensively discussed in Chapter 3 and Chapter 6.

- 2-46 WHAT ABOUT OUR YOUNGER GENERATION'S THINKING? WHAT IS THEIR DESIRE FOR MORE LEISURE TIME?

Their value system may differ and none of us can speak for the younger generation. Many people in today's society are interested in having more time for leisure. People in agriculture are moving this direction. We see a lot of boats, water skis, snowmobiles, little leagues in rural areas and other evidence that suggest rural and urban areas are growing more alike.

- 2-47 WHAT CAN BE DONE TO ENCOURAGE YOUNG PEOPLE TO FARM?

The major incentive to farm is adequate net farm income. We do have sufficient numbers of young people willing to try if assistance is provided. The farm credit system is trying to help young people start farming. Some additional provisions may be needed, such as lower interest rates, longer repayment periods, changing equity required to get young people started. How to select the beneficiaries of such a program becomes a problem. Family members and friends do provide assistance to a large proportion of beginning farmers.

- 2-48 HOW CAN A LARGE FARM OPERATOR BE REPLACED BY A SMALL OR BEGINNING FARMER? HOW CAN A SMALL FARMER HAVE AN INCENTIVE AND/OR FINANCING TO BECOME A LARGE OPERATOR?

The incentive to become larger is income. The amount of capital needed to take over the large farm is the main obstacle to attain adequate size. Managerial experience is a major factor and encourages tenancy. Part owner-operators or those owning a base farm and renting additional land is common solution today.

2-49 WHAT ARE THE PROSPECTS OF PERPETUAL DEBT AND WHAT FORM WILL IT TAKE? IS PERPETUAL REAL ESTATE DEBT MERELY AN OPEN LINE OF CREDIT?

Perpetual means forever. There are several debt options that could be explored. One would be having a continual open line of credit or perpetual debt. Farm business organization would need to move toward incorporation for this to be viable. Another option would be a 40 to 50 year repayment time. The important factor regardless of the option followed is to gain managerial control of the resources needed to develop a viable firm with sufficient volume and operating efficiency to optimize objectives.

2-50 WITH HIGH CAPITAL INVESTMENT FOR EQUIPMENT, WHY NOT SOME TYPE OF LEASING SERVICE THAT PROVIDE SOME TAX ADVANTAGES AS AN INCENTIVE TO THE FARMER?

This is a possibility that some farm and many non-farm firms are utilizing. Careful budgeting will show if the leasing costs are more advantageous than owning. Both yearly costs, taxes and the impact on net income need to be ascertained.

2-51 HOW DOES PERPETUAL DEBT OPERATE WHEN ONE IS UNABLE TO WORK?

This is a risk. Health insurance would help guard against this possibility. It would provide for hiring managerial capabilities to continue the operation.

2-52 ARE VERY MANY PRODUCERS GETTING OUT OF DEBT TODAY?

The total farm debt has increased from \$33 billion dollars in 1964 to over \$79 billion in 1974. In recent years it has been increasing from 11 to 12 percent per year. The relationship of liabilities to assets in agriculture is still quite good. Most farmers are in a very liquid position. However, there are individuals "up to their neck" in debt. The optimism generated by 1973-74 farm prices mean some troublesome days ahead for some people who over extend their earning capacity.

### CHAPTER 3

#### A CORPORATE SYSTEM FOR AGRICULTURE

Edgar P. Watkins\*

#### The Model Described

This model examines the nature of a corporate dominated agriculture. In this organizational system, agricultural production decisions would be controlled by a small number of industrial type firms. Production decision makers would decline drastically to less than one percent of present day numbers. It has been suggested that as few as 500 corporations would finally emerge as being dominant in the agricultural field.

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The orientation of this system remains price oriented and competitive with private enterprise operated although vastly more concentrated than at the present time. As in the industrial world where there are relatively few sellers, price competition would decline in importance as private brands compete with each other for real or perceived differences. Promotion and advertising would play a larger role in marketing. Ownership and management would become two separate groups in businesses of this size.

The corporation may choose to: a) own, b) lease land, or c) contract production with present owner-operators. Basic research would tend to be funded by the corporation rather than from public funds and the research would become privately held for corporate use only. Public information would be limited to the financial, advertising and promotional needs of the corporation.

Capital needs would be met through the public money market (stocks, bonds and other security issues) rather than through specialized farm credit agencies.

This form of corporate structure is already fairly dominant in some specialized areas of agriculture. Examples are processed fruits and vegetables, sugar, broilers and eggs.

#### INFORMATION ABOUT THE CORPORATE SYSTEM

##### 3-1 WHAT IS THE TREND IN CORPORATE FARMING?

Corporate farming is increasing. When corporate agriculture is defined to include corporate farming and corporations contracting with individual farmers and groups, 92 percent of the broilers, 100 percent of the sugarcane, 88 percent of the processing vegetables, 54 percent of the turkeys, 62 percent of the potatoes and 47 percent of citrus are within the corporate sphere regarding production decisions. Midwest agriculture is not yet tied directly to corporate decision making as in some other regions. The point has been made, however, that once 25 percent of the production becomes corporate, the shift to corporate control proceeds rapidly.

##### 3-2 AT THE CURRENT RATE OF ATTRITION OF FAMILY TYPE FARMS AND IF NO LEGISLATION OR OTHER OVERT ACTION IS TAKEN TO CURB THE TREND TO CORPORATE AGRICULTURE, HOW LONG WILL IT BE UNTIL ALL AGRICULTURE REPRESENTS ORGANIZATIONS SIMILAR TO BROILER GROWING?

Estimates vary from 10-15 years to the next generation (30 years). With individual commodities, this will vary depending on efficiencies generated vertically by integrated operations, profit potential and variations in price cycles. Hog operations will become integrated much sooner than cow-calf. Corporations find it difficult to accept variable profit performance because of fluctuating production and price cycles.

##### 3-3 HOW IMPORTANT IS THE INFLUENCE OF LARGER FIRMS IN U.S. AGRICULTURE?

Very important, especially in the processing and marketing of food. These influences are related to both social and economic pressures. Consumers expect to find the same products in retail markets as they move from area to area. There are important promotion and advertising advantages to national distribution. Advantages of large scale production and the desire for "market power" leads corporations to extend price influence.

3-4 PLEASE COMMENT ABOUT MULTI-NATIONAL FIRMS OPERATIONS?

Multi-national food firms are not new, but are a growing factor as many industrially developed countries have moved closer together in regard to consumption patterns and food use. In spite of difficulties imposed by cultural patterns, regulations, monetary exchange, and other factors, international food companies can consider possibilities of locating processing plants in those areas having a comparative advantage in both production and processing costs.

3-5 ARE FOREIGN CORPORATIONS GOING TO BE AN IMPORTANT FACTOR IN CONTROL?

If control is defined broadly, yes. We do have an important interest in maintaining export markets. As we have moved from exporting for price support and humanitarian reasons to becoming an important supplier of food to other countries, we find that we cannot turn the exports on and off to suit our whims. Thus, foreign corporations are an important market.

On the other hand, there is little solid evidence that there is rapid movement of foreign corporations to control agricultural production activities in this country.

3-6 IS THIS SYSTEM SIMILAR TO THE CURRENT RUSSIAN AGRICULTURAL SYSTEM? DOES THE CORPORATE FORM OF FARMING TEND TO LEAN TO SOCIALIZED AGRICULTURE, SIMILAR TO THE RUSSIAN SYSTEM: THAT IS, LARGE LAND-HOLDINGS AND FEW MANAGERS?

The corporate model bears no resemblance to the socialistic or communistic system. It is true that there is a similar large scale enterprise characteristic but there the resemblance ends. The corporate model is a price oriented, competitive, private enterprise system where price is the allocator of resources, where competition is maintained to give consumers a choice, and where little public funding is involved. In this system, there is greatly increased concentration (fewer and larger firms) but most definitely not government operated.

3-7 WOULD THE CORPORATE SYSTEM TEND TO LEAD TOWARD REGIONAL OR CENTRALIZED GOVERNMENT?

If the corporate system in agriculture became so concentrated that there ceased to be effective competition, there would be many pressures for greater regulation. It is true that large organizations deal effectively with large organizations. Thus, large corporations tend to adapt easier to increasingly complex government actions, while at the same time government activities are more easily implemented with large-sized businesses. Does big business lead to big government, or vice versa or do they adapt to each other?

3-8 WHY HAVEN'T CORPORATIONS ALREADY TAKEN OVER? WHY DIDN'T SOMEONE TAKE OVER SEED CORN SUPPLIES AND CONTROL THE SYSTEM?

First, there has to be a financial reward over time. In seed corn, the research has been public and available to anyone who wanted it. In addition, the seed corn market has been a fiercely price competitive one with medium-sized seed companies holding their own rather well. It may be that large corporations did not see profit potential in the specialized business where hybrid adaptation to local conditions is important.

3-9 IS THE DESCRIPTION PAINTING THE CORPORATION AS THE "BIG BAD WOLF?"

This is not the intent. The intent is to examine the characteristics of corporate dominated agriculture. As is usually true, there are advantages and disadvantages where choices are available. One of the advantages stressed was some gain in efficiency because of integrated operations. One of the disadvantages stated was the centralization of decision making. The corporate form is not necessarily a "big bad wolf," but there are costs involved in the shift.

3-10 HOW WOULD THE CORPORATE MODEL WITH FEW OPERATORS CHANGE WITH A LARGE NUMBER OF RELATIVELY SMALL FARMING CORPORATIONS?

Small farming corporations (family incorporated) is interpreted as a decentralized corporate farm, which, in effect, may not separate ownership and management. This would be quite a different creature if compared with the large-scale, integrated corporation which this model is built around. The family incorporated farm organization probably will grow in numbers as a method of transferring property but does not fit the description of corporate agriculture where ownership and management are separate and the size of the organization is large.

3-11 HOW WOULD A CORPORATION ASSURE CONTROL THROUGH LEASES AND CONTRACTS?

Although it is recognized that corporations securing production of agricultural products through leasing and contracting do not have complete control, the corporate managers do make decisions about quantity and quality required. In this situation, a farmer who does not have a contract can find he has no market. Furthermore, if the corporation decides to shift location or close plants the farmers, as a group, may be without a market. The control factor is more subtle, but it is there.

3-12 IN THE NEXT 10-15 YEARS, WHAT CONDITIONS ARE LIKELY TO DEVELOP THAT WILL BE CONDUCIVE TO CORPORATIONS IN AGRICULTURE?

Some of these conditions are very much alive today. Continuing good profit levels in agricultural production; increasingly complex regulations from local, state and federal government; sharply increasing capitalization costs making it difficult for the beginner to get established in farming; difficulties the individual may experience in financing and refinancing higher cost and larger-sized operations; the drying up of new talent and a new generation willing to assume the risks associated with production are some of the conditions encouraging corporates.

3-13 DO YOU FAVOR A CORPORATE TAKE-OVER?

Corporate domination does not fit the historic values that our agricultural system has held in high esteem. Thus, most agriculturalists feel more than a little uncomfortable with the results of this model. This feeling of being uncomfortable will not reverse today's trends. But, it would not be the end of the world.

3-14 THIS WOULD MEAN THAT CORPORATES COULD CONTROL THE WORLD, DOESN'T IT?

No, not really. We are considering a highly concentrated competitive environment. As long as the ground rules established through government do in fact maintain competition, a monopoly "takeover" is not likely.

3-15 WILL A CORPORATE AGRICULTURE LEAD TO INEFFICIENCY AND A FOOD SHORTAGE?

This result is not likely. In the corporate system, the inefficient tend to lose market shares and eventually are squeezed out. Their place is taken by new or existing more efficient operations. A severe food shortage probably would not result from a corporate system. A good share of the marketing of food is already within the corporate structure.

3-16 WHY DO YOU THINK THE CORPORATE SYSTEM WOULD HAVE GREATER EFFICIENCY WHEN IT IS A PROVEN FACT THAT THE FAMILY FARMER HAS FAR OUT-STRIPPED THE CORPORATE INDUSTRY IN EFFICIENCY?

Keep in mind that gains in productivity are lumpy and these gains are not uniform over a long period of time between industries. Industrialization in the late 1800's and early 1900's increased productivity in manufacturing tremendously. Agricultural gains have grown by leaps and bounds in the last forty years, but are still in the process of catching up with industry. In some segments of agriculture the gain will come from better coordination of production and marketing activities. The family farmer is not self-sufficient today. A large share of the gains in his productivity can be ascribed to inputs (fuel, fertilizer, machinery, etc.) provided by the industrial corporate sector.

3-17 HOW CAN A CORPORATE COMPETE WITH A FAMILY FARM? AREN'T FAMILY FARMS MORE EFFICIENT?

The modern version of the family farm is efficient and can remain so if: (1) capital and credit remain readily available, (2) open markets are maintained, (3) research and information is public, and (4) farm businesses can be readily transferred from one generation to another without great penalty. The two-three man farm can compete on physical efficiency with any system. But, efficiencies in purchasing inputs at lower priced and/or selling products at higher prices give some advantages to the bigger operation.

GOVERNMENT POLICY

3-18 WHAT ARE THE POLITICAL IMPLICATIONS OF THE CONTROL OF FOOD AND FIBER PRODUCTION?

Of course, the political implications are tremendous. How deeply do legislators and the public feel about maintaining agricultural production in the hands of the owner-operator? Will agricultural exemptions from some regulations, such as labor, be continued? Will future regulations exempt small-sized business or allow different guidelines for owner-operators? Will we penalize large corporations, as we now do high earned incomes, with a graduated corporate income tax? These questions are only a few of the myriad of public policy questions.

3-19 IN LARGE CORPORATIONS, WHAT HAS HAPPENED TO GOVERNMENT CONTROL OF, BY AND FOR THE PEOPLE?

The control of, by and for the people need not be seriously threatened by large corporations. In any real showdown between government and a corporation where there are significant differences jealously guarded, the corporation cannot win. They can cajole, compromise and maneuver but when the public will is strongly identified, the corporation must make the adjustment, or disappear.



3-20 AT THE PRESENT, DO ANTI-TRUST LAWS PERMIT CORPORATES TO PRODUCE FROM RAW MATERIAL TO FINISHED CONSUMER GOODS?

Present anti-trust laws do not really prohibit large-scale, fully integrated corporates, but they do erect some sizeable road blocks. Both the Justice Department and Federal Trade Commission raise serious questions about mergers which significantly affect market share or reduces competition. Thus, large-scale processors find themselves challenged when considering large integrated mergers or acquisitions either vertically or horizontally. At the present time, there are no major reasons why a corporation cannot grow into producing, processing, distributing and retailing of food over a period of time.

3-21 WHAT ABOUT THE POLITICAL "CLOUT" IN THE CORPORATE SYSTEM?

The political clout of any powerful, articulate group can be most persuasive. It was thus that the first major anti-trust law, the Sherman Act, was turned away from business and used for decades against labor, largely through a friendly court system. Of course, a corporate system has clout, especially in those areas where the public has no strongly identified values and viewpoints.

3-22 DON'T YOU FEEL THAT CORPORATE FARMING WOULD ULTIMATELY RAISE TOTAL PRICES OF FOOD DUE TO HIGHER COSTS AND THEREFORE RAISE FOOD PRICES TO THE CONSUMER? WOULD NOT MORE CORPORATE CONTROL OF FOOD--A BASIC HUMAN NEED--RESULT IN RAPID PUBLIC PRESSURE TO MAKE AGRICULTURE ANOTHER PUBLIC UTILITY?

There is merit to the thought that food prices might well be a little higher with a shift to a corporate structure? Some gains in efficiency might, over time, be cancelled out by higher advertising and promotion costs, higher labor costs and the corporation taking over much of the food research and information expenditures which are now public, but are not now included in food costs. As stated earlier, as long as the corporate model remains competitive and offers consumers a realistic choice, legislators are not likely to intervene. Even today there is little sentiment favoring moving the government into production activities. Providing services--water, sewer, police and fire protection, transportation networks, education, income maintenance--is where government activity has increased tremendously, using the argument that private competing companies would be too expensive and not provide ready access to all citizens.

3-23 WILL ENERGY PROBLEMS IN THE PETROLEUM INDUSTRY BRING LEGISLATION THAT WILL PREVENT LARGER CORPORATIONS FROM CONTROLLING ANY SEGMENT OF THE ECONOMY (INCLUDING AGRICULTURE)?

This surely is a current topic. What is more likely to happen is that government will intensify basic research, which, hopefully, will lead to solutions to the energy shortage. Theoretically, this information will be public, but likely the only ones with enough management and financial muscle to make the results operational will be the present assortment of energy firms; those may be the public utilities, the oil companies, coal companies, petro-chemical combinations or some group thereof. We may, in the process, remove some tax advantages and add others to accomplish the "public will".

3-24 WILL A CORPORATE FARMING SYSTEM HELP REDUCE TAXES PAID BY INDEPENDENT FARMERS?

Probably not, unless farmers as a group convince legislative bodies to grant them some measure of tax relief using well documented cases of public benefits.

3-25 HOW COULD TAX LOSS OR TAX SHELTERS BE PREVENTED?

Most tax benefits have in the past been enacted to accomplish some worthwhile purpose. Some of these tax shelters get out of date or are used in a manner not anticipated. Tax shelters, which have proliferated, are a means of postponing taxes and have been enacted for a variety of reasons--encourage investment, savings, retirement plans and others. Although some would like to eliminate all loss provisions and shelters, recent trends are to broaden these benefits. And, farmers can take advantage of some of these provisions.

3-26 WE HAVE NEVER HAD PRICE SUPPORTS ON BROILERS. IS IT BECAUSE THE BROILER INDUSTRY DIDN'T HAVE THE VOTES OR THE POLITICAL POWER OF THE DAIRY INDUSTRY?

Price supports have lasted only on those commodities which, in some form, could be stored from one production cycle to another. This is in addition to the voting power recognized above. It's difficult to hold in storage, at reasonable cost, such commodities as strawberries, peaches, broilers, beef and pork. Furthermore, price supports on grains affecting cost levels influence price levels of livestock and poultry. In another sense a form of price support has been purchases for school lunch and feeding the needy programs with broiler and turkey purchases that depended upon supply-price relationships.

INVESTMENT, CAPITAL, CREDIT AND FOOD

3-27 HASN'T THE TAX STRUCTURE LIMITED, ALMOST TO THE POINT OF ELIMINATION, THE USE OF "RETAINED EARNINGS" AS A MEANS OF PROVIDING FINANCING FOR EXPANSION?

The tax bite on profits is substantial, but no more so for retained earnings than for dividends paid. Retained earnings, plus an allowance for depreciation, represents the largest single source for financing growth and change in corporations. The next most important source is borrowed money, and third, in most years, are new stock issues.

3-28 ISN'T THE INCREASED EQUITY IN A MODERN FARM OPERATION LEADING TO CORPORATE FARMING?

It may be. However, we may see more farmers organizing their business as a corporation to aid in transferring property. This may be a new version of the old family farm, where ownership and management are still together as one or two families. It could develop into non-farm ownership of land and tenancy. The corporate identity we've been considering is not the family corporation, but a large-scale enterprise where the owners are not involved in operations.

- 3-29 WHAT IS THE ROLE OF CAPITAL? DO TAX SHELTERS WORK AGAINST DISPERSED FARMERS AND FOR CORPORATES?

The role of capital is to provide resources. Some of these resources substitute for or replace labor. In the future, capital may substitute for some commodities such as land, as artificial environments are developed. A few types of corporations may have some tax shelter advantages, such as the option of expensing or capitalizing research and development expenditures. On balance, the farmer is probably not at a big disadvantage in this area. One of the farm operator's tax advantages is land ownership itself. Remember that tax shelters are a device for postponing taxes, not avoiding them.

- 3-30 WOULDNT'T LOAN METHODS NEED TO CHANGE TO ALLOW THE CORPORATE MODEL? WHY NOT CHANGE THE ROLE AND LET FARM CREDIT AGENCIES MAKE LOANS TO AGRICULTURAL CORPORATIONS (CORPORATIONS ENGAGED IN FARMING)?

The large size corporation is able to tap the worldwide public money market. This is assuming the company has reasonably good growth prospects, is profitable and is willing to pay the price for money. At times, corporations may have just as much trouble securing an adequate supply of capital as a farmer or a small business. If public policy determines that it is desirable for the farm credit agencies to loan to corporations for agricultural purposes, there is no reason why the charter provisions can't be changed.

- 3-31 HOW MANY PEOPLE CONTROL THE WEALTH OF THIS COUNTRY?

Relatively few. The Brookings Institute recently released a study projected from estate tax information. They identified a group labeled the "Super Rich" which included those individuals with net assets of over \$60,000. They concluded that less than five percent of the population had wealth of this magnitude. Additionally, 50 percent of the population had net assets of less than \$3,000.

- 3-32 WHY DO YOU SAY THAT FOOD COSTS WOULD PROBABLY BE SOMEWHAT HIGHER UNDER A CORPORATE SYSTEM?

Some gains in efficiency because of a more tightly controlled integrated operation would be more than offset by higher promotion and advertising expenses and higher labor costs, as agricultural labor loses agricultural exemptions within the operation and as this labor becomes more highly organized.

- 3-33 WHAT WOULD BE WRONG WITH HAVING CORPORATIONS OWN LARGE TRACTS OF LAND WITH CITY PEOPLE (AND FARMERS, TOO) OWNING STOCKS IN THEM AND, THEREFORE, OWNING THE LAND?

If this fits our values, those things that are considered important, there is nothing "wrong" with corporate landholding; those corporates, in turn, being "owned" by the public.

- 3-34 CAN WE KEEP THE CONSUMER HAPPY WITH A SYSTEM THAT REQUIRES MUCH HIGHER PRICES FOR HIM, AS ANY NON-COMPETITIVE SYSTEM WILL RESULT IN?

The corporate system is a competitive system much like present automotive or appliance manufacturers. This model is not a "public utility," "monopoly," or "government owned" system.

- 3-35 WHAT PERCENTAGE INCREASE IN FOOD COSTS MIGHT OCCUR UNDER THE CORPORATE SYSTEM?

At this point it would be a "guesstimate." The amount probably would not be 10 percent higher and might well be half that amount. Even if the increase was 10 percent, this would require about 1.5 percent more of the consumer's disposable income for food.

- 3-36 FOR EVERY DOLLAR SPENT IN AGRICULTURE, HOW MANY DOLLARS DOES IT PUT INTO THE ECONOMY?

This refers to the multiplier effect for investment money. Many feel this is a factor between 2.0 and 3.0; some say under 2.0. If each additional dollar invested multiplies by a factor of 2.0 through the economic system it would create up to \$2 of additional activity.

#### FARMERS

- 3-37 DO YOU THINK COLLECTIVE BARGAINING HAS A PLACE IN A CORPORATE SYSTEM?

If we're referring to farmers entering into collective bargaining (term of delivery and prices) with corporates in the future, it will be just as important as labor's collective bargaining with present corporations. Also, corporate production units will negotiate (bargain) with corporate marketing firms.

- 3-38 CAN WE ENCOURAGE A CORPORATE SYSTEM TO BE FORMED BY A GROUP OF INDIVIDUAL FARMERS?

Of course we can. But this is not the scale or type of corporation we are considering here. If a group of farmers formed a corporation, grew into a billion dollar firm, and along the way sold most of the stock to the public, it would resemble the type of corporation considered here.

This is a considerably different creature than a few farmers banding together into a corporation while retaining most of the stock in the corporation and handling the management themselves.

- 3-39 WHY CAN'T FIVE OR MORE FARMERS GO TOGETHER TO FORM A FARMING CORPORATION?

There's no reason why this cannot be done. Under the present ground rules, a subchapter S corporation has some advantages if there are fewer than 10 stockholders.

3-40 WHAT EFFECTS, IF ANY, HAS THE CORPORATE SYSTEM HAD ON THE DAIRY INDUSTRY?

The dairy industry is a unique structure. This is partly because of an unusual marketing order where a price floor is established and enforced by government and partly because milk cooperatives have significant farmer support and the cooperative tends to vote its membership as a block vote in securing changes in marketing orders. In this process, the dairy processing industry's former dominant corporations have opted to look elsewhere for "greener pastures." The former big dairy corporations are less dominant than in earlier years.

3-41 ARE GAINS IN THE BROILER INDUSTRY THROUGH INTEGRATION DUE TO BETTER COORDINATION OR EXPLOITATION?

More to better coordination than exploitation. Although farmers contracting broilers have wished for better contracts, many of these farmers in the 50's and early 60's were able to secure significantly higher standards of living than with their previous agricultural enterprises. At the same time some broiler producers in the mid-west discontinued operations and shifted to other enterprises.

3-42 WHAT PERCENTAGE OF CATTLE ARE BEING FED UNDER TAX SHELTERS?

The large scale commercial feedlots now account for some 60 percent of the fed cattle market. Investors interested in a tax shelter may account for some share of this production. It's difficult to say for sure whether this person or corporation was more motivated by the type of future profits or by seeking a tax shelter.

#### LABOR

3-43 CAN YOU GET MAXIMUM PRODUCTION FROM LABOR IN THE CORPORATE SYSTEM?

I'm not sure what maximum production is. The corporate system can probably make efficient use of labor. There is probably more cause to be worried about management efficiency than labor efficiency in the corporate model.

3-44 CAN ORGANIZED FARM LABOR BE A PROBLEM TO CORPORATIONS?

It has some potential for being a problem. If a strike is called during a brief harvest period it could be disasterous to both the company and to the nation's food supply. This problem is not a great barrier. Even in the industrial area, both labor and industry are backing away from the strike. Bargaining, negotiating and arbitration seem to be replacing the strike as an effective means of securing adjustments on terms of work and wages.

3-45 MANY FARMERS HAVE LEFT THE FARM TO WORK FOR A MANUFACTURING CORPORATION. WHY NOT LET HIM STAY IN THE RURAL AREA AND WORK FOR A FARMING CORPORATION?

The corporation which actually participates in farming operations will require labor, and this will be one alternative for work by rural residents.

MARKETS

- 3-46 WOULD AGRICULTURAL CORPORATES BE CONFINED TO AGRICULTURE OR WILL THEY BE PERMITTED TO FARM AS WELL AS OPERATE IN ALL AREAS OF MARKETING?

Today's corporations active in agriculture operate many other types of businesses. There may not be a separation of agricultural corporations and manufacturing corporations. These corporations will probably operate and diversify over many areas to secure growth and profits.

- 3-47 AS CORPORATES GAIN A GREATER SHARE OF THE MARKET, DOESN'T CORPORATE POWER GROW?

The potential for corporate power grows. The provisions for corporations within our economic system are governed by rules established by legislation. These rules can be altered to counter the exercise of too much power.

- 3-48 HOW MANY BROILERS WOULD BE SOLD IF WE STILL HAD AN OPEN MARKET? WOULD WE SELL AS MUCH CORN AND SOYBEANS FOR BROILER FEED?

Very possibly more broilers are sold now than if we had a dispersed system. The very concentrated--corporate--contract grown broilers of today have speeded up the production and marketing of a large quantity of rather uniform quality product available throughout the year at reasonable cost. If availability, uniformity, and quality at a lower price has sold more broilers, then we may have expanded the market for corn and soybeans even with improved feed conversion.

SOCIAL CONCERNS

- 3-49 WHY HAVEN'T LARGE CORPORATIONS ALREADY DONE THE BASIC RESEARCH AND TAKEN OVER AGRICULTURE?

Large corporations are doing much basic research. One only has to look at the supply side of production agriculture with its array of chemicals, seed, feed additives and other products sold under brand names. If public expenditures for basic research in production and marketing continues to decline, then increasingly more will become privately held--and largely unavailable for the public. This has tremendous implications for today's owner-operator and the questions of "Who Will Control Agriculture?"

- 3-50 IS TECHNICAL INFORMATION SHIFTING FROM PUBLIC INFORMATION TO CONTROL BY CORPORATIONS?

Yes, there is a trend to less public information. The oil crisis emphasized how far down the road some segments of the economy have gone. Public agricultural research is probably a smaller part of the total agriculturally related research than at any time in the past 50 years.

- 3-51 CAN CORPORATE OPERATIONS PRODUCE ENOUGH GOOD QUALITY FOOD? WILL THE INTEREST OF THE MANAGEMENT PAY OFF? E.G., WHY DON'T CAR POOLS WORK OUT?

Corporate agriculture could produce enough food of adequate quality. The market mechanism will function almost as effectively in the corporate world as in owner-operated small business world. There is probably some concern about the flexibility of management of a large corporation in making short run adjustments. Car pools have the disadvantage of being voluntary, decreasing an individual's flexibility on time and place, and sometimes rather inconvenient or uncomfortable for the individual.

- 3-52 WOULD CORPORATE FARMING BE PUTTING THE AMERICAN PUBLIC AT THE MERCY OF THE FOOD CONVERTER? E.G., OIL INDUSTRY.

Here again is an example of an imbalance between public and private information. And the question is what is a reasonable balance so that industry can "do its thing" effectively while at the same time generating enough industry information for realistic policy decisions. We can adjust this public information need as much as necessary. The public does not really have to be "at the mercy" of the food processor.

- 3-53 WOULD RURAL COMMUNITIES DISINTEGRATE MORE THAN HAS BEEN THE CASE IN URBAN AREAS OR LARGE CITIES?

This may really be at least a two part question. One aspect of this is the quality of the environment as measured by such things as quality of air and water, congestion, housing, crime rate, family life and others. Some have suggested that central cities have major problems in this regard. The second aspect relates to quantity--a community having enough people and businesses to retain its vitality to provide services at reasonable cost. The decline of rural communities under the corporate system is more identified with the second aspect.

- 3-54 WHERE AROUND THE WORLD ARE PEOPLE AS WELL FED AS IN THE U.S.? WHAT COUNTRIES HAVING CONCENTRATED AGRICULTURE FEED THEIR PEOPLE AS WELL AS IN THE U.S., WITH A DISPERSED SYSTEM?

There are a number of well fed countries in the world but the U.S. is not the best fed nation nutritionally. We are indeed fortunate to live in an area that had the climate and natural resources that will allow agriculture to produce 90 percent of our food needs. There is no denying that our agriculture is one of the most productive and consumers pay a relatively low share of after tax income for food. Keep in mind, however, that we could not have made this progress without a strong industrial corporate structure that has provided the fuel, machinery, power and supplies so that the American farmer could substitute capital for labor, plus being blessed with large expanses of fertile land.

- 3-55 WOULD CORPORATIONS, ONCE THEY GOT CONTROL OF THE MARKET, DO AS OUR BIG OIL COMPANIES ARE DOING NOW--TAKE ADVANTAGE OF PEOPLE?

Are you sure you have been taken advantage of? Petroleum products have, until these last few months, been one of the most price stable commodities available. From 1948-1973 prices of all products rose 74 percent. During this same period, petroleum products rose 30 percent. We suspect an exercise of power as petroleum prices increase. Or, does this reflect a shift from surplus petroleum to a shortage? How is this different from the agricultural commodity market of the last year? Any real power that corporations have can be withdrawn at any time if the public finds this desirable.

3-56 WILL PESTICIDE AND ENVIRONMENTAL REGULATIONS FAVOR CORPORATIONS?

These two areas represent examples of very complex regulations having all kinds of spin-off effects. As we increasingly turn to complex regulations about pesticides, the environment, labor, government (public) reports, and others, large-size corporations are in a little better position to be able to hire the specialists in each of those areas who can interpret the law and regulations for management. Small-sized businesses are at a disadvantage because they do not have this ready access to legal and technical information.

3-57 HOW WOULD CORPORATE AGRICULTURE FIT IN THE U.S. WHEN WE ARE INDIVIDUALISTS AND WANT TO HAVE A ROLE IN MAKING OUR OWN DECISIONS?

Probably the 200 or so car manufacturers in the early part of the century felt exactly the same way--but only four exist today. I'm also sure there are many in today's suburbs and cities who are refugees from the farm. Agriculture is not insulated from the move to more concentrated, larger-sized businesses. The question is a complex one about economics, people's values, social needs, and resource use. There's no simple answer, except to point out that regardless of the system, we'll have fewer farmers 10 years from now.

3-58 WOULD THIS SYSTEM LEAD TO EXPLOITATION OF PEOPLE?

It has this potential. As has been mentioned in other responses, the ground rules under which we all operate can be shifted to encourage desirable results rather than undesirable ones. One purpose of exploring the topic of "Who Will Control Agriculture" has been to lay out some of the alternatives so that policy questions may be approached in an objective manner.

## CHAPTER 4

### A COOPERATIVE MARKETING ORGANIZATION

Robert E. Jacobson\*

#### A Description

A cooperative dominated agriculture could take many forms. The degree of involvement and size of operation would be much more intensive and much larger than in today's cooperative marketing structure. In this marketing system it is assumed cooperatives would control the first level of marketing. However, from this point on competitive forces would prevail and any organizational arrangement might develop. On the farm supply side some input markets might be integrated or contracted by the cooperative. Others might be left to operate independently.

This market organization features managing markets and assures access to markets. The broad approach would include both 1) bargaining to influence prices and terms of trade, and/or 2) marketing products through a) full supply contracts, b) owning the processing part of the product supply and negotiating with private processors for the remainder, or c) joint ventures with merchandising firms.

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Under this system the producer would be the financier and laborer. Land ownership would be dispersed. The cooperative would assume some production, management and marketing decisions.

The cooperative system would restrict farmers freedom in decision making more than the independent open market system but producers incomes from the food system would improve. Agricultural supply and marketing firms would face new competition; some would survive and others would fail depending upon whether the particular input became integrated, contracted or the supplier operated independently. Government spending for farm programs would be reduced. Consumer food prices would be higher than in an open market system.

If national policy were to favor the cooperative marketing system major consolidation of cooperatives would be necessary. For example, all milk, all livestock, or other product procurement and market services in the nation might be handled by one cooperative. This would require not only legislation but a major commitment by producers to join forces (quite an assumption given the disunity of farmers). Legislation might require mandatory cooperative membership and exercise of control by the cooperative through marketing orders, marketing boards, bargaining rules and regulations, or other devices. Granting these privileges probably would be accompanied by closer public supervision to assure the public interest.

#### INFORMATION ON THE COOPERATIVE SYSTEM

- 4-1 WOULD THE GOVERNMENT PERMIT AS FEW AS 25 COOPERATIVES? THEY SEEM TO BE "ON THE BACK" OF MILK CO-OPS NOW. MILK CO-OPS ARE BEING ACCUSED OF BEING TOO STRONG.

There is no evidence to suggest that the government would stand in the way of a few large cooperatives in the United States. Almost all of the enforcement actions against cooperatives to date have been directed to the conduct or behavior of cooperatives, and not against the size and concentration of cooperatives.

- 4-2 ALL FARMERS WOULD HAVE TO BE MEMBERS OF THE COOPERATIVE IN THIS SYSTEM. HOW COULD THIS BE ACCOMPLISHED?

An obvious means of requiring cooperative membership would be through new federal government legislation. This legislation would be comparable to the National Labor Relations Act, in which union shops were authorized. In this situation, if a majority of producers were to vote for or in support of the cooperative, then all producers would necessarily have to become a part of the organization if they wanted to market that product.

- 4-3 AS WE MOVE AWAY FROM VOLUNTARY CO-OP MEMBERS, WHAT COSTS WOULD BE INVOLVED FOR MANDATORY MEMBERSHIP?

Hopefully, the money costs in a mandatory membership situation would not differ from costs that are currently involved in the voluntary co-op approach. As a matter of record, however, it appears that when organizations become institutionalized, which mandatory membership implies, the operational costs are then apt to move upward.

- 4-4 WOULD IT BE GOOD FOR COOPERATIVES TO TAKE ON THE SAME AMOUNT OF POWER AS UNIONS OR CORPORATES?

A power question like this is one that each individual has to answer for himself. Obviously, we dislike the fact that power accrues to any individuals or groups. However, the fact is that it does. In this sense, cooperatives are faced with the fact that they have to countervail the power of groups that they do business with. In this sense, in terms of the objectives of cooperatives, it is good for cooperatives to take on a comparable amount of power.

- 4-5 IF FARM MARKETINGS TOTALED \$60 BILLION IN 1970, WOULDN'T ANYTHING OVER 50 PERCENT BE CONTROL OF AGRICULTURE? IF SO, CO-OP MARKETINGS AT \$15 BILLION IS ONE-HALF OF THE WAY TOWARD CONTROL.

This question is frequently asked. There is no easy answer. In some instances, cooperatives that do not control or supply much of the product have extensive control. In other instances, a cooperative may control substantially more than 50 percent of the product on the market, but it still does not have control. This is because there are non-cooperators in the market who are procuring the raw product at lower prices and the cooperative in effect is forced to honor these lower prices as it sells its product to its customers. So long as there is one buyer in the market who does not have to honor the pricing program of the cooperative, it puts the cooperative in a very difficult position of having to extend prices to its customers.

- 4-6 WOULD ANYONE BE PROHIBITED FROM FARMING IN THE COOPERATIVE SYSTEM?

This would depend upon the rules that were adopted for the cooperative system. We are assuming that as a minimum, people who would not join the cooperative would be prohibited from marketing through the cooperative controlled channels. They might market their products through a roadside stand.

- 4-7 WOULDN'T THE CO-OP MODEL RESULT IN A LOSS OF FREEDOM?

Certainly. The fact that we are considering the co-op model as a dominant system indicates a trade-off of some freedom for some price enhancement.

- 4-8 HOW ARE SECURITY, RESPONSIBILITY AND INCOME RELATED IN A CO-OP SYSTEM?

The scope of this question suggests that we should write a textbook. Security and income stand out as two high priority objectives of a co-op system. How ambitious these objectives are pursued comes back to the sense of responsibility that exists within the membership of the co-op system. Society would place some constraints upon the security-income objectives. In this sense we see responsibility being a factor at both the membership level and at the society level.

- 4-9 HOW CAN WE STRENGTHEN COOPERATIVES WITHOUT UPSETTING THE FREE ENTERPRISE SYSTEM?

Technically, the adoption of the cooperative system in agriculture would in no way conflict with the free enterprise system. Commercial farms and the cooperative system itself would be elements of the free enterprise system. However, the cooperative system would be allocated by members some powers that would put restrictions upon some of the freedom of individual farms. These would not necessarily be restrictions that would be imposed by government. In that sense, the free enterprise system would continue to be the type of system within which we operate.

4-10 HOW DO WE CONTROL PRODUCTION?

At the present time, cooperatives do not usually control production. The non-cooperator or non-member is generally in a position to ignore any production control discipline and thus undermine the control efforts of the cooperative. That is why when there are production controls extended to a commodity, it is the government that has to be the focal point of implementing the control program. Under government control, both members and non-members are treated comparably so far as production control efforts are concerned.

4-11 WOULDNT'T THE LIMITING OR GOVERNING OF PRODUCTION BE SOCIALIZED AGRICULTURE?

If one defines socialized agriculture as the ownership and operation or management of agriculture by the government, then I don't believe that we can say that limitations on production by cooperatives are socialized agriculture. If one defines socialized agriculture as a situation where a broader decision making input enters into production decisions or when the traditional individual's decision making becomes compromised somewhat by broader group action, then the answer is yes.

4-12 WOULD CO-OPS, AS THEY ARE NOW STRUCTURED, BE ABLE TO DO THE MARKETING JOB?

Some would and some wouldn't. Many are doing a tremendous marketing job. There is nothing fundamental in the structure of cooperatives that prevents them from doing a very effective marketing job.

DECISION MAKING AND CONTROL

4-13 A MAJOR ELEMENT OF THIS SYSTEM WAS MEMBER-PRODUCER CONTROL. IN FACT, TO WHAT EXTENT DO MEMBERS CONTROL THE COOPERATIVES?

Ideally members do control the cooperatives. Let's recognize that in some cooperatives there appears to be very strong management control, while in other cooperatives there appears to be very strong board control, and in both situations we sometimes lose sight of the membership aspect. In the long run, the power of cooperatives is vested in the membership. This is because of members voting power with respect to the board, and thus control over management that can ultimately be implemented through the members.

4-14 HOW DO MANAGERIAL DECISIONS IN COOPERATIVES DIFFER FROM MANAGEMENT DECISIONS IN CORPORATIONS?

I doubt there is any significant difference in management decision making between cooperatives and corporations. We are viewing them both as businesses and they are confronted with the same types of business decisions. There are good and bad management decisions made in corporations. The same is true in cooperatives. There is probably a greater range in the quality of decision making made within corporations, or within cooperatives than there is between corporations and cooperatives.

4-15 DO NOT MEMBERS OF A COOPERATIVE HIRE MANAGEMENT JUST THE SAME AS STOCKHOLDERS HIRE MANAGERS OF THEIR CORPORATION?

Yes.

- 4-16 HOW DOES THE VOLUNTARY MEMBER OF THE COOPERATIVE DIFFER FROM THE SHAREHOLDER OF A CORPORATION? ISN'T THERE A GREAT DEAL OF SIMILARITY BETWEEN THE COOPERATIVE AND THE CORPORATION?

The similarities are substantial. A key difference is that common stockholders in a corporation have votes in proportion to the amount of stock they hold. The cooperative is generally on a one member one vote basis. But, it is true that a cooperative and a corporation are only slightly different organizationally.

- 4-17 SPEAKING TO LARGE COOPERATIVE EXECUTIVE LEADERSHIP, ARE THE LARGER FARMS FAVORED OVER THE SMALLER FARMS: THAT IS, QUOTAS, PURCHASE PRICES ON LARGE VOLUME, DISCOUNTS ON LARGE PURCHASES, ETC.?

For the most part, in farmer cooperatives, larger farms are not favored over smaller farms. The one man one vote principle that describes farmer cooperatives seems to have generated a type of equal treatments principle with respect to all members. If we were to measure the cost of cooperative membership in terms of amount of product handled, we would generally find that larger producers often pay a somewhat higher share of the costs of cooperative operations. This is a kind of problem that cooperatives are going to have to face up to more directly in the future, or they will begin to lose more of their larger member operations.

- 4-18 DO WE HAVE TRUE COOPERATIVES TODAY?

This question may revolve around your idea of what constitutes a true cooperative. If we think of the historic Rochdale principles of one member one vote, then we have what may be termed the true cooperative.

- 4-19 HOW MANY PEOPLE MILKING COWS HELPED MAKE THE DECISION TO MAKE POLITICAL CONTRIBUTIONS?

Well, that's a long discussion. But to simplify, most political contributions in the dairy industry have come from individuals who voluntarily chose to make money available to a fund which is in effect sponsored by their cooperative. There is nothing at all illegal or unethical about such contributions. Unfortunately, the illegality of some dairy cooperatives making corporate contributions is another matter. This has created a bad image for dairy cooperatives.

#### PRICES AND COMPETITION

- 4-20 WHO WAS RESPONSIBLE FOR THE RECENT ANNOUNCEMENT THAT THE PRICE OF MILK WOULD GO UP 60¢ CWT.?

Milk marketing cooperatives in individual markets carry the primary responsibility for that announcement. Of course, these local cooperatives are members of a federation of several cooperatives. In the Ohio area, the federation has become the basic price making body for each of the member cooperatives. But again, responsibility for the announcement and implementation of the announcement comes back to the individual local cooperative.

- 4-21 WOULD YOU SAY THAT FARMERS GROUPING THEIR PRODUCT TOGETHER WILL BE A HELP TO GET BETTER PRICE FOR THE FARMER?

Yes. The basis for market power in agriculture comes through the ability to control supply. Where farmers group or assemble their product as a single type of sale, there is a control over that output and supply that permits farmers to achieve a better price than if the total supply was sold in smaller lots by individual farmers.

- 4-22 HAVE COOPERATIVES OBTAINED A BETTER PRICE FOR THE FARMER? CAN THEY IMPROVE IF COOPERATIVES BECOME THE DOMINANT SYSTEM?

The history of cooperatives obtaining a better price for the farmer is a "spotty" one. In many cases, the cooperative has not had the bargaining or market power. However, for certain commodities and in certain periods of time it is clear that cooperatives have successfully negotiated significantly higher prices than would have been obtained without the cooperative effort. If we were to embark upon a complete cooperative system in agricultural production and marketing, it seems obvious that the monopoly powers that would accrue to cooperatives under such a system would mean improved prices as compared to an agricultural system without such cooperative control.

- 4-23 WHAT PERCENT OF FARM PRODUCTION MUST BE ORGANIZED UNDER A MARKETING COOPERATIVE TO SET THE PRICE AT THE FARM LEVEL? THE LABOR UNIONS HAVE LESS THAN 30 PERCENT OF THE LABOR FORCE.

We come back to the principle that a marketing cooperative must have substantial control of the supply in order for it to effectively establish prices. It is impossible to specify a certain percentage of the supply that they must control. If there are producers who are not in the cooperative and go outside of any contract efforts of the cooperative who sells to a single buyer, it then forces the cooperative to recognize the arrangements that these non-members have made, because it is very difficult to force higher terms of trade upon buyers who will cooperate with you as compared to buyers who are doing business with non-members. In another situation, non-members may be distributed fairly evenly across a production area, and this suggests that a cooperative is in a position to control the supply at all buying points. It therefore makes sense to observe that in situations where the percentage of farm production that is not organized is fairly concentrated, then the price-making efforts of the cooperative are diluted substantially. In a situation like this, even if a large percentage of the farm production is organized, it still is very difficult to have a cooperative successfully engage in price-enhancing efforts.

- 4-24 MANY COOPERATIVES OR FEDERATIONS OF COOPERATIVES ARE NOW ACCUSED OF MONOPOLY PRACTICES. DO YOU AGREE?

Let's recognize that cooperatives were established to permit farmers to organize along monopoly lines. This is why cooperatives have, by and large, been exempted from the anti-trust laws. The question then becomes whether or not cooperatives have engaged in monopoly practices that are in violation of the law. In some instances it is clear that cooperatives have, in fact, engaged in practices that conflict with the law. The U.S. Supreme Court several times have identified various co-op practices which were in violation of the law. One key rule from these Supreme Court decisions is that agricultural cooperatives cannot engage in so-called predatory and coercive behavior.

4-25 HAVE COOPERATIVES BEEN IN COMPETITION WITH PROCESSORS THEY SELL THEIR EXCESS MILK TO?

Basically no. For the most part, cooperatives with excess milk make it available to proprietary milk manufacturing firms in the nearby area. The milk manufacturing facilities that cooperatives operate generally are directed to handling seasonal and weekend surpluses of milk and are primarily balancing type facilities for an entire fluid milk market.

4-26 HAVE CO-OP MEMBERS BEEN IN COMPETITION WITH THEIR CUSTOMERS WHEN THEY INTEGRATE?

Yes, this is frequently the case. In some cases this has discouraged cooperatives from integrating. In other situations, cooperatives that integrated have tended to be less aggressive than if they were not a cooperative.

4-27 DO COOPERATIVE MEMBERS HAVE A PRICE ADVANTAGE BY ENTERING INTO PROCESSING AND RETAILING OF ITS PRODUCTS?

There is no obvious price advantage that accrues to cooperative members if they forward integrate into processing and retailing. The processing-retailing facility that the cooperative operates would in effect be in competition with all other processor-retailers of those products. In order for the cooperative to have a price advantage, the members of that cooperative would have to be supplying raw products to their facilities at a lower price than non-cooperatives have to pay for their raw product. This in effect would defeat any price objectives of the cooperative. We are assuming that the same kinds of marketing costs-marketing margins would be part of the cooperative operation as other types of proprietary marketing firms are faced with.

MARKETS: PERFORMANCE: ORGANIZATION AND MANAGEMENT

4-28 WILL EXISTING COOPERATIVES PICK UP PROCESSING PLANTS WHO ARE IN FINANCIAL TROUBLE?

This will vary with enterprises and industries. In some cases, cooperatives may have extensive accounts receivable with some processing plants. The acquisition of such plants may be the only way cooperatives can recover assets. In other instances, the processing plants may have markets that are essential to the cooperatives' survival. In these situations cooperatives may acquire the processing plants. In other cases (sugar beets) producers may need to form a cooperative to buy a processing plant if they want to maintain a market. In other cases it wouldn't make sense to acquire processing plants which haven't been able to survive economically.

4-29 DO YOU THINK THAT CORPORATIONS OR COOPERATIVES WILL ATTRACT AND OBTAIN THE BEST MANAGEMENT PEOPLE?

There should be no difference between corporations and cooperatives on securing high quality management. Both corporations and cooperatives will have to attract and obtain the best management people possible. If one doesn't then it will lose relative to the other.

4-30 WHAT IS THE POSSIBILITY OF COOPERATIVES INTEGRATING THROUGH THE JOINT-VENTURE ROUTE?

We will define a joint venture as an arrangement between a cooperative and a corporation, both involved in different marketing functions for the same commodity, and these two different organizations make some kinds of arrangements that are mutually beneficial. There are a number of different kinds of joint ventures that are in operation in agricultural marketing. Joint ventures are a step short of integration. As we move toward more coordination across our food marketing system, it seems that joint ventures will be a more serious consideration.

4-31 INTEGRATED PRODUCTION-PROCESSING-DISTRIBUTION SYSTEMS HAVE BEEN MAJOR PROBLEMS--WHY?

I am not certain that such systems always have been major problems. For example, the broiler industry is an illustration of a highly integrated system that has been efficient and has reduced total poultry costs and continues to function. However, there have been firm and farmer problems in the totally integrated system. Most of the problems appear to have been related to management limitations. It is a major challenge, management-wise, to get on top of that many functions simultaneously.

4-32 CAN CO-OP MEMBERS HAVE AN ADVANTAGE BY INTEGRATING--VERTICAL AND HORIZONTAL?

In one sense, there is no advantage that co-op members can gain by integrating. There is a considerable degree of efficiency in the food industry at the present time. There is no indication that integration by cooperatives could enhance the performance of the food system. However, the same kinds of motives and benefits would extend to cooperatives that other firms have enjoyed as they went into integration. Some of these benefits include an increase in efficiency in some areas, some improved coordination, some improved quality control, and similar type considerations that improve incomes. In another sense, cooperatives could set themselves up as a competitor with non-cooperative firms in the food industry and, thus, become a benchmark or monitor for conditions across the industry. In this sense, all producers would benefit.

4-33 SHOULD A COOPERATIVE BE NATIONWIDE IN ORDER TO COMPETE WITH NATIONWIDE BUYERS?

The answer comes back to control of supply. In some instances, a local cooperative can have sufficient control of supply for that market to be very effective in its bargaining-marketing program. For some commodities, it becomes apparent that in order to control supply the cooperative would have to operate on nationwide basis. So there is no simple answer to whether or not a cooperative should be nationwide in the scope of its operation.

4-34 IS THE TREND TOWARD LARGER CORPORATIONS OR COOPERATIVES WORLDWIDE?

I think so, especially on the corporate side, where we hear much of the multi-national corporations. With respect to U.S. cooperatives, a good measure is the cooperative merger activities which have been a major factor in continuing growth. There is little cooperative activity worldwide.

4-35 WHY DID THE COOPERATIVE FAIL IN BEHALF OF THE MANUFACTURING GRADE MILK PRODUCER?

I don't think there has been a failure. One of the most successful cooperatives in the United States, Land-O-Lakes, is a federation of cooperatives representing primarily manufacturing grade milk producers. In Ohio, we have a different situation, where manufacturing grade milk producers have never seen fit to organize into a cooperative.

4-36 ARE DAIRYMEN BETTER OFF THAN FARMERS IN GENERAL?

I doubt there is a general answer in regard to that question. In some periods dairymen have been better off income wise than other farmers. In other periods of time they may have been worse off than other farmers in economic terms. The answer probably comes back to the individual producer. Any producer is well off who is doing what he likes to do, is making a reasonably good living, and is satisfied. We cannot generalize on enterprise terms to that question.

4-37 IS THE NFO A BARGAINING COOPERATIVE OR MARKETING COOPERATIVE? IS IT A COOPERATIVE?

In recent years the word "cooperative" in agriculture has taken on a more flexible usage than it once had. For our purposes, a cooperative is any group of producers who choose to market their product as a single entity. In this sense, NFO is a cooperative though it is not chartered as a cooperative in its organizational setup. The NFO is a bargaining cooperative-- it negotiates terms of trade though more recently the NFO has coordinated movement of products to market. It is not really geared to the kinds of marketing functions that we generally identify to be a part of a marketing cooperative.

4-38 WHAT SIZE DOES THE COOPERATIVE GET BEFORE MEMBERSHIP IS A REQUIREMENT OF SURVIVAL FOR NON-MEMBERS? AND AT THAT POINT, AREN'T A FEW VERY LARGE CO-OPS ACTUALLY MONOPOLIES WHICH WOULD WORK AGAINST THE INTERESTS OF SMALLER, FAMILY-SIZED OPERATIONS?

In principle, cooperatives have not reached a size where membership becomes a matter of survival for non-members. There are instances, however, where we should recognize that some cooperatives, very large cooperatives, have probably engaged in some forms of market conduct which effectively interfere with the non-members' marketing efforts. However, these forms of market conduct are usually challenged in the courts by the federal government. As for the second part of the question, it is true that very large cooperatives can in effect become monopolies, but it may or may not be true that the cooperatives would work against the interests of the smaller, family-size farm operations. If they accept production from producers from a given size it would work against the smaller producer, but the entire rationale for the existence of these large cooperatives comes down to the point that they are working for the interests of the smaller family-sized farm operations through retaining market access.



4-39 WHAT IS THE FUTURE OF MARKETING COOPERATIVES FOR SPECIALIZED CROPS LIKE TOMATOES?

There may be little difference between the future of marketing cooperatives for specialized crops as compared to marketing cooperatives for other agricultural commodities. There are some characteristics of specialized crops that may lend themselves to cooperative marketing. For example, the harvesting of tomatoes and the perishability and transportation problems connected with that crop may lend it to cooperative marketing. In addition, the marketing structure that growers are confronted with may place them in a position of attempting to create a counter-vailing power through the cooperative. The various considerations suggest that some cooperative effort by specialized growers is needed. If so, the future is good for these organizations.

4-40 SHOULD PRODUCERS BE TAXED INSTEAD OF RELYING ON VOLUNTARY ASSESSMENTS FOR ADVERTISING AND PROMOTION?

This is a classic type of equity question. Where financing comes from voluntary assessments, those producers who do not participate enjoy the benefits from the advertising and promotion program sponsored by those people paying the bill. Is this right or wrong? Or, in another sense, should producers who do not believe in the merits of the advertising-promotion program be required to participate in its financing? Another consideration should be whether there are demonstrated benefits from the advertising and promotion programs. Are producers financing something in which they are getting a return on investment from their participation? In a free society we will likely continue to try to limit the kinds of assessments that are mandatory on all persons in a given group.

4-41 DO YOU THINK THAT COOPERATIVES AS PRESENTLY ORGANIZED OR STRUCTURED WOULD BE CAPABLE OF HANDLING THE JOB?

We must concern ourselves with what job we are addressing. In other words, what objectives do you have in mind for cooperatives? In many instances cooperatives are doing the job with respect to bargaining for better prices or doing the job with respect to getting on top of the marketing function in a more efficient way for member producers. However, we can cite instances where cooperatives are not organized and structured to doing the job. It is with respect to these commodities that we have to concern ourselves with additional machinery needed in order to put cooperatives in a stronger marketing position.

PRODUCTION EFFICIENCY

4-42 HOW CAN YOU HAVE MORE PRODUCER SECURITY AND HAVE DECREASED PRODUCTION EFFICIENCY?

Increased producer security is obtained by removing some of the competitive forces from the market place. For example, entry barriers to agricultural production might be implemented, which would protect current producers from new competitors. As a result, greater producer security could be obtained and somewhat higher price levels might be achieved. Since the producers continuing in production would be protected somewhat from competitive market pricing, and would have wider margins to operate on, it is clear that in many instances they would take advantage of this and would forego some of the cost-reducing efforts that they historically have engaged in. Also to the extent that they have wider margins to operate on, many of those profits would be capitalized back into the farm operation for production at ultimately higher cost levels.

4-43 WHY WOULD WE SEE DECREASED PRODUCTION EFFICIENCY WITH THE COOPERATIVE MARKETING SYSTEM?

We would not necessarily see decreased production efficiency with the cooperative marketing system. Again, this would come back to the effectiveness and the objective of the cooperative marketing system. However, if the cooperative marketing system is successful in terms of gaining higher prices for producers, those higher prices themselves might lead to some decreased production efficiency. For example, some producers might continue to produce who would have had to get out if they didn't have the higher prices. Or, in other instances, producers who are gaining higher prices may simply capitalize those profits back into the farm operation and bring on a higher cost production operation.

4-44 HOW DO YOU STIMULATE EFFICIENCY OF PRODUCTION IN A CO-OP SYSTEM TO COMPETE FOR WORLD MARKETS?

This question comes down to what the objectives of the co-op system include. Obviously, there is a conflict in objectives when one strives to compete for world markets while trying to offer some kind of price stability and profitable prices. To compete for world markets, the co-op system would need to produce a high quality product at reasonable and competitive prices and be a dependable supplier. Denmark has a cooperative dominated system that competes extremely well in the British bacon market. There is internal competition and monetary incentives to produce a high quality product, reduce costs and improve incomes.

4-45 IF COOPERATIVE MARKETING WOULD RESULT IN INCREASED PRODUCTION COSTS AS WELL AS RETURNS, THEN WHY BOTHER WITH THE COOPERATIVE?

The primary incentive for the cooperative is that it offers each individual producer some economic flexibility that he otherwise would not have. For many producers, bargaining success by the cooperative takes some pressure off the cost-price squeeze. For producers in a better economic position, the bargaining success of the cooperative means that the producer can enjoy a wider profit margin in his farming operation. He may or may not capitalize those monies back into his farming operation. The capitalizing of monies back into the farming operation can be equated with a higher standard of living and this would be consistent with the purposes of many producers.

## CHAPTER 5

### A GOVERNMENT ADMINISTERED AGRICULTURE

Dennis R. Henderson\*

This potential model examines the nature of an agricultural system that is controlled by government. In this system public action, that is, decision making in the political arena replaces or at least significantly influences private action in agriculture. Economic decisions are made largely through the political processes rather than in the market place.

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Many examples of government influence in agriculture already exist. Target farm prices, the Commodity Credit Corporation, food stamp program, and federal market orders are but a few examples. National forests operated by the U.S. Forest Service and U.S. owned grazing lands are other examples.

### The Model Described

It is difficult to describe one set of characteristics that would be typical of a government administered agriculture. Government control in the U.S. is a product of compromise. The opinions, desires and interests of many diverse groups are reflected in the political decision making process. Often the goals of these various groups are different and frequently, inconsistent. For example, consumers desire low food prices. Farmers, on the other hand, seek high incomes while agribusinessmen desire wide margins and, of course, the general public seeks low taxes.

Government control is not clearly identified with any particular interest group. Therefore, the exact nature of a government administered agriculture is not easy to predict. Likewise, an outcome that reflects the interests of many diverse groups is more indeterminate than for the other alternatives.

A government administered system is characterized by rules and regulations which control the use of some or all of the resources in a given industry. In agriculture the predominant resources subject to control include a) production inputs, such as credit, labor, management and technical information, pesticides, fertilizers, farm machinery, fuel and the like, b) land, and c) markets for agricultural products. Control over any of these tends to restrain access to and use of the resources, thus, controlling in a prescribed way the amount of economic activity in various segments of the agricultural and food system.

Just as the resources that are controlled can vary, the method of control can also vary. Control can be exercised through voluntary participation, such as the land bank and food stamp program; through programs elected by a majority of those controlled, such as Federal Market Orders and collective bargaining; or by legal statute that mandates prescribed action throughout an industry.

More extensive government control could be imposed upon U.S. agriculture by two methods. The first is a public utility where a commission could be established to license farm producers and other agricultural enterprises and to regulate prices, levels of production and other economic behavior. This is similar to existing government control in areas such as electricity and telephone service. The second approach is nationalization, or outright government ownership of all production resources. The government could then exercise direct control, such as is done now in the postal service, or forest service could lease these resources under specified conditions to private firms. In essence, this is an extension of current government ownership of rangeland and timberland.

Regardless of the form of government control, certain results seem likely. For example, incentive for individual efficiency would be reduced. Higher governmental and administrative costs would be incurred. Bureaucratic inflexibilities would develop. Farmers and agribusinessmen would lose some control over their destiny. Greater income stability would likely result for farmers and others in agricultural-related businesses. Many would likely realize higher incomes. The additional governmental costs and reduced efficiency would probably result in higher food costs and higher taxes.

With this as background, brief answers are provided for a number of questions that had been raised relative to future government involvement in U.S. agriculture.

INFORMATION ON THE GOVERNMENT SYSTEM

5-1 WON'T THE GOVERNMENT BE INVOLVED IN ANY SYSTEM OF AGRICULTURE?

There is a long history of government involvement in all sectors of the U.S. economy. At the very least, it is necessary for the government to prescribe ground rules and define basic economic rights and responsibilities. No economic system could long survive without this type of involvement. However, differences exist in the extent of that government involvement. In the other agricultural systems analyzed, the free enterprise idea is maintained. That is, individual businesses, whether large or small, would have autonomy in making most decisions relative to the allocation of resources in the food system. The government's role would be largely that of prescribing broad guidelines and monitoring performance. In the government administered system, however, the government would be the primary decision maker relative to resource use in agriculture. Individual businesses and farms would have relatively little flexibility in overall operations.

5-2 ARE MORE GOVERNMENT AGENCIES GOING TO FORCE THEIR WAY INTO AGRICULTURE LIKE THE ENVIRONMENTAL PROTECTION AGENCY AND THE FOOD AND DRUG ADMINISTRATION ARE NOW DOING?

Throughout the history of this country we have had government involved in agriculture. It has prescribed rights and responsibilities associated with land ownership and agricultural production. For example, the property tax is a long standing responsibility associated with the right to use land for agricultural production or other uses. In the nineteenth century, both the federal and state governments became actively involved in agricultural research and education. At the turn of the century, the government-sponsored Extension Service was developed. In the 1930's, in response to pressure from farm organizations, the federal government took action to stabilize farm production and prices. A number of rules and regulations have been adopted to assure that a fair game is played and that most producers receive economic rewards somewhat consonant with their contributions to the food system.

Most of these governmental actions have come about at the request of various segments of agriculture and do not reflect the "forcing" of government into agriculture. The entry of government is usually "requested or pushed" by vested interest groups. As the inter-relationships between the agricultural sector and other parts of our society become more complex, it is reasonable to expect the public-at-large, through its government, to continue to prescribe rules and regulations that are designed to help achieve desirable performance in the food and fiber sector.

5-3 IS THERE A RELATIONSHIP BETWEEN THE WEAKENING OF AN ECONOMIC SYSTEM AND INCREASED GOVERNMENT CONTROL?

The history of economic development throughout the world does not point to a strong relationship between the strength, or weakness, of an economic system and the degree of government control. A free enterprise economic system is generally associated with a secondary role for government control while more socialistic types of economic systems depend upon a greater degree of government involvement. Examples of rapid economic development can be found under each type of system, although, in the past, there are many more examples of rapid economic development in free enterprise systems than where strong government control has existed. Nonetheless, many countries throughout the world with a free enterprise economic system have been slow at achieving economic development while mainland China, with a socialistic system, developed into a major economic power in a relatively short period of time. Thus, there does not appear to be a clearcut relationship between the strength of an economy and the degree of government control.

Centralized government control is a move away from a free enterprise economy and, to the extent that this is not consistent with the desires of society at large, it would be undesirable. Because of the value placed upon individual freedoms in the United States, such a system would probably thwart individual incentive and, thus, diminish economic productivity.

5-4 HOW WOULD THE GOVERNMENT ADMINISTERED SYSTEM COMPARE WITH AGRICULTURE IN THE SOVIET UNION?

If U.S. agriculture were to be nationalized, a comparison with the state farms in the U.S.S.R. would be in order. While detailed information on the performance of the Russian state farms is not readily available, most knowledgeable sources indicate that their performance is less than optimal. Incentives for individual productivity and efficiency seem to be thwarted and bureaucratic inflexibility appears to prevent orderly adjustment. This is similar to the performance we would expect under a nationalized system of agriculture in the U.S. It is interesting to note that in the U.S.S.R., an increasing share of the total agricultural output appears to be coming from relatively small peasant-operated farms. State control over most farming activities does, however, allow the Russian government to directly control the distribution of the nation's resources to the various economic activities. By reducing the resources allocated to agricultural production or consumption, for example, more resources can be allocated to areas such as education and national defense.

5-5 IF THE U.S. MOVES TOWARD MORE GOVERNMENT CONTROL IN AGRICULTURE, WHAT HAPPENS TO THE ROLE OF FARM ORGANIZATIONS?

Political processes depend heavily upon inputs from a wide range of diverse groups. It is through lobbies and other organized informational and persuasive activities that most governmental action is determined. It is almost impossible for individuals to participate directly in the political process, other than through the general elections. Thus, the need for farmers to be collectively represented in political processes and governmental decision making, particularly with expanded involvement of government in agriculture, points to a greater importance for farm organizations.

- 5-6 AS WE MOVE TOWARD GREATER INVOLVEMENT BY GOVERNMENT IN AGRICULTURE, WE HAVE TO RECRUIT MORE PEOPLE INTO GOVERNMENT SERVICE. AT THE SAME TIME, DO WE CREATE MORE OPPORTUNITIES FOR GRAFT AND CORRUPTION?

This is a particularly timely question, given the current concern with honesty and integrity in government. Certainly, opportunities for graft and corruption exist in any conceivable system. However, these opportunities increase with the increasing size of an organization, regardless of whether it is a government organization or another one. In our political system, there are safeguards against extensive misuse of power, in terms of both the three separate and relatively independent branches of the federal government and the general elections. In fact, there may be better means for controlling misconduct in government than in private organizations of similar size. Most records of governmental action are in the public domain, thus, are available for public scrutiny while the records of private corporations generally are not. This increases the probability that unlawful or immoral practices in government will be exposed, relative to the probability for similar misconduct in private organizations. This greater probability of disclosure in government can, in itself, serve as a powerful deterrent to misconduct.

- 5-7 WHY NOT USE DDT ON THE WATER BUGS IN WASHINGTON?

The politicians have banned the use of DDT in all non-essential areas.

- 5-8 WOULD GOVERNMENT OWNED OR CONTROLLED ORGANIZATIONS BE USED TO REGULATE PRICES? WILL THESE ORGANIZATIONS BE SUBSIDIZED TO BE COMPETITIVE WITH PRIVATE FIRMS?

One of the primary reasons for government involvement in agriculture in the past has been to stabilize prices. That is, government programs have supported prices when supply is large and prices would otherwise be depressed and held prices down somewhat during periods of short supply in order to maintain reasonable food prices. Thus, it is clear that price regulation would be an important aspect of government control. If it was thought to be desirable to have prices below costs, some subsidies would be essential. This might come about two ways. First, a low-cost food policy might be effected. Here, subsidies would be used to cover part of the production and distribution costs for the purpose of lower retail prices. Second, government bureaucracies tend to be relatively high-cost and inefficient. Thus, costs for producing and distributing food could be higher under a government system than for a private enterprise system. If the policy was to keep food prices in line with costs under a private enterprise system, subsidies would probably be required.

- 5-9 IN CONGRESS, PRODUCERS HAVE A MINOR VOICE WHILE CONSUMERS HAVE A GREATER VOICE. UNDER A SYSTEM OF COMPLETE GOVERNMENT CONTROL WOULD IT NOT BE POLITICALLY EXPEDIENT TO FORCE LOWER PRICES FOR AGRICULTURAL PRODUCERS AND, THUS, LOWER FOOD PRICES?

Clearly low food prices have great political appeal. This was demonstrated emphatically during the summer of 1973 when price ceilings were placed upon food products. However, the consequences of unrealistically low prices for agricultural products are significant. If, over time, producers do not receive prices that are consonant with production costs plus the necessary income to induce farmers to continue in business,

agricultural production would be substantially diminished. This certainly would not be in the interest of consumers. Thus, prices paid to producers must, over time, at least reflect production costs and a minimum income level to farmers. Reasonable producer incomes may not necessarily be reflected in higher consumer prices, however, as subsidies can be paid to farmers out of tax revenues. In fact, under a government administered system this is quite likely what would happen. This is, a relatively low food price policy is likely to be implemented. The increasing cost of agricultural production due to diminished incentives for efficiency and costs associated with the government bureaucracy would be subsidized by taxpayers. Higher taxpayer liability appears to be assured under any system of increased government participation in economic processes.

#### CONTROLLING THE SYSTEM

5-10 WON'T THE GENERAL PUBLIC BE INVOLVED IN DETERMINING WHAT TYPE OF CONTROL WILL BE IMPLEMENTED IN U.S. AGRICULTURE?

Very definitely. Governmental action is required for any type of control. For example, legislation requiring use of spot markets might be necessary to facilitate a dispersed open-market system. Likewise, public action creating mandatory membership might be necessary to facilitate the cooperative alternative. Relaxation of anti-trust laws would be essential to either the cooperative or corporation model.

Governmental action in terms of defining rules, rights, and responsibilities is a necessary ingredient to any economic system, short of anarchy. No economic system can exist separate from the rules and institutions that, in the U.S., are made by the general public through the governmental processes.

In the government administered model, however, governmental involvement goes significantly beyond the definition of rules and specifications of individual rights and responsibilities. The public, through its governing process, would make at least some of the decisions relative to agricultural production and the use of resources throughout the food system. Thus, political processes would be significantly more extensive in the government administered agriculture than under alternative forms of organization.

5-11 IS MAJORITY RULE STILL AN IMPORTANT POLITICAL FACTOR OR IS MINORITY RULE BECOMING STRONGER?

In the past, U.S. farmers were considered to be in a powerful political position because they represented a majority of the popular political vote. Today, the situation is much different. Farmers are a small minority. Thus, if farmers are going to exercise a significant influence on political processes, it will be from a minority position. But, this is not to say that we are entering an era of minority rule. The power of a minority is in its ability to convince a majority. The recent action by the people of Ohio to approve a constitutional amendment facilitating differential taxation of farm land is an example of the farmers' ability to mobilize a majority to their point of view, even though they were in a minority position. However, as farmers become a smaller and smaller minority it becomes increasingly important that they reflect a consensus opinion. It is difficult for a majority to respond when different groups of farmers cannot agree.

5-12 DO WE HAVE ANY HOUSEWIFE CONTROL IN U.S. AGRICULTURE?

Yes. Clearly the consumer must be willing to buy the products on the market if any system is going to survive. And consumers are traditionally "fickle." It is difficult to predict how they will behave in the market place. A substantial reduction in the purchase of beef for household consumption, for example, can have a significant impact not only on the beef industry, but several related industries. Advertising and other persuasive techniques have not been very effective in altering or directing consumer food purchases. Thus, the consumer maintains a great deal of sovereignty in the food market. It should be pointed out, however, that the more concentrated the food system becomes, whether it is the hands of a few cooperatives, a few corporations, or government, the alternatives available to consumers may be reduced. Nevertheless, consumer concerns can, and frequently are expressed through the political system. In a highly concentrated system this replaces much of the consumer's power in the market place. Of course, political action through legislation often works somewhat slower than does the impact of changing buying practices.

5-13 ONE MEANS OF GOVERNMENT INFLUENCE IN AGRICULTURE THAT HAS BEEN SUGGESTED IS TO PREVENT NON-FARMERS FROM FARMING. IF YOU PREVENT NON-FARMERS FROM FARMING, DO YOU ALSO LIMIT FARMERS ACCESS TO NON-FARM WORK AND INCOME?

This is an important question. When non-farmers are asked to give up the right to enter farming, isn't it equitable to ask farmers to give up a similar right--that is, the right to a non-farm occupation. There has been little evidence of this in the past. For example, we have limited entry into several professions such as surgery and other health care, law, pharmacy and the like. Yet, at the same time, we have not prevented people in these professions from securing income from other sources. However, as access to more and more occupations becomes limited, the alternatives that anyone has become restricted. Therefore, while the restriction of non-farmers from farming does not per se limit farmers from non-farm occupations it would be part of a long run trend that could have the same consequences in the end.

5-14 ARE THE FOUR ALTERNATIVES: OPEN MARKETS, COOPERATIVES, CORPORATIONS, AND GOVERNMENT, THE ONLY ALTERNATIVES FOR CONTROL OF AGRICULTURE OR ARE THERE OTHERS?

These alternatives were discussed because they are generally illustrative of the range that exists in methods for control and of the types of performance that may result from different forms of control. Essentially, these alternatives look at horizontal control in agriculture. That is, they are concerned with methods for controlling similar functions, such as production, marketing, processing, and so on.

Another approach is to examine vertical linkages in the food system. There are a number of vertical systems that can coordinate activities in the food system, beginning with the supply of farm production inputs and terminating with the ultimate consumer. Examples include: 1) unorganized farmers, facing upward pressure on prices of production inputs from suppliers and downward pressure on prices of farm commodities from food converters and others in the food distribution channel; 2) organized farmers, reducing some upward pressure on supply prices through group purchasing and shifting the point of downward pressure on farm prices toward the consumer; and 3) completely integrated food systems, where production supplies, production, food converting, and distribution are under the same umbrella. This shifts most price pressure to the point of retail sale. Again, these are not all encompassing but are generally descriptive of the range of vertical systems that might be used.



- 5-15 GOVERNMENT INVOLVEMENT IN AGRICULTURE SEEMS TO BE LARGELY IN TERMS OF CONTROL OVER PRODUCTION INPUTS. IS THERE A POSSIBILITY OF FOOD SCARCITY UNDER SUCH A PROGRAM?

This is a real possibility. One of the major problems of large scale control in any sector of our economy, whether it be government, corporations, or cooperatives is the magnitude of the results of mistakes. If, for example, an individual farmer incorrectly interprets indicators of a developing shortage of food stuffs and correspondingly decreases production, the overall consequences are not particularly severe. However, when production decisions for much of agriculture are concentrated at a single point, as would be the case in a government system, the consequences of this kind of a mistake are serious. There is no assurance that government decision makers would be more adept at making the decisions necessary to avoid food scarcity than are individual entrepreneurs. Furthermore, bureaucratic inflexibility might prevent agricultural production from responding as rapidly to an increase in demand for food as it could with a more dispersed system of control.

- 5-16 WILL FARMERS, THROUGH THEIR OWNERSHIP OF LAND, CONTROL SOCIETY OR WILL SOCIETY PLACE LIMITS ON LAND USE?

In a democratic society such as the U.S., people have more basic rights than does land. That is, the right to participate in the political process is delegated to individuals, not to owners of land. This has resulted in many limitations on land use. Zoning is a prime example. New methods of controlling land use are being developed. Differential taxation is just one example. Thus, farmers do not appear to be in a strong control position vis a vis the balance of society simply because they own, collectively, a substantial share of the land in the U.S.

- 5-17 DID LAND RETIREMENT PROGRAMS CONTROL AGRICULTURAL OUTPUT? HOW MUCH AND HOW EFFECTIVELY DID THEY ENCOURAGE EXPANDED USE OF FERTILIZERS, THUS, INCREASING OUTPUT?

It's difficult to accurately measure the effectiveness of the various land retirement programs. It is not possible to precisely control production by limiting only one factor of production, particularly when that factor has some relatively close substitutes. And, of course, we saw many of these substitutes for land used, including fertilizer, improved crop hybrids, irrigation, and other management practices that increase per acre yields. Additionally, frequently the least productive land was retired, thus, only marginally decreasing the production base. Nevertheless, over the period of time that land retirement programs were used, total output was brought more closely in line with effective demand and burdensome surpluses were reduced. Estimates have placed output reduction between 70-90 percent of the acreage retired. Thus, with 12 percent of the cropland retired output would be 8-11 percent less than if no land retirement program were in effect. At the same time, land retirement programs did help many marginal farmers leave agricultural production and enter alternative economic pursuits. One of the secondary benefits of the land retirement programs may be that they encouraged farmers to use improved crop management practices which has allowed production to respond more dramatically during the recent periods of relatively short supplies of agricultural products.

MARKETS

5-18 ARE WE MOVING TO A PUBLIC UTILITY IN AGRICULTURE? IF SO, HOW RAPIDLY?

There is little indication that we are moving toward a public utility for U.S. agriculture at the present time. Public utilities in the U.S. are normally formed only in industries that have the characteristics of a natural monopoly. A natural monopoly exists when the average cost of providing a unit of a product to the marketplace diminishes significantly over the entire range of quantities that is demanded. In this case, if there is more than one seller in the marketplace the total cost of providing the product would be significantly higher than with just one seller.

This phenomenon usually occurs in industries that have a high ratio of fixed costs to variable costs. Examples include telephone service and power distribution, such as gas and electricity. In these markets the cost for the physical facilities necessary to supply the product is quite high while the actual variable cost per unit sold is relatively low.

These conditions do not exist in agriculture. Most studies of scale economies in farming indicate that most, if not all, significant economies to size in production can be achieved on family-size farms, that is, two to three man-years equivalent. While more substantial scale economies appear to exist in marketing and distribution, these are not of the magnitude necessary for a natural monopoly. Thus, few, if any, of the economic conditions associated with public utilities exist in U.S. agriculture.

Nonetheless, certain aspects of public utilities may be seen in agriculture. Federal Market Orders provide one example. Under market orders, a pricing formula is administered by a governmental agency much as prices are regulated in some public utilities. A major difference exists, however, in that government-regulated prices are mandatory in public utilities while in agriculture they are at the option of a majority of producers. Thus, while some similarities between public utilities and various agricultural programs exist, few economic characteristics of public utilities are apparent in the food system.

5-19 WHY ARE MARKETING BOARDS SUCCESSFUL IN CANADA, BUT WE WON'T TRY THEM IN THE UNITED STATES?

The success record of Canadian marketing boards needs to be clarified. Some have been successful, most notably the livestock boards. These have facilitated selling methods that increase the competitiveness of price bidding between buyers and sellers. In essence, they have supported an open market, competitive pricing system by establishing trading mechanisms that force all sales through an open bidding process. On the other hand, marketing boards that have attempted to control production and establish prices a priori, do not have a record marked with high success. It is difficult for a marketing board to regulate production to a point where a specified price will clear the market without shortages or surpluses accruing. Furthermore, producers generally dislike surrendering their sovereignty over prices and quantity sold to the marketing board. There is reason to believe that U.S. producers would be no more willing than their Canadian counterparts to surrender this sovereignty to a marketing board.

5-20 DO PRICE CONTROLS CAUSE RADICAL FLUCTUATIONS IN THE PRICE AND SUPPLY OF AGRICULTURAL COMMODITIES?

Price controls can bring about dramatic shifts in supply and prices of agricultural commodities if prices are controlled in a rigid manner and at unrealistic levels given the basic market conditions. An example would be during the summer of 1973 when unrealistically low price ceilings were placed on food and farm products, thus, discouraging agricultural producers from expanding production despite relatively short market supplies. Such action, if sustained over a long period of time, could lead to chronic shortages and black markets.

However, government involvement in agricultural prices in the past has been used largely as a means of removing sharp price and supply variations. The agricultural price support program was used to put a floor under prices for selected agricultural commodities in periods of excess market supply relative to demand. This has been done by governmental purchases of surplus products. Likewise, when supply has been short relative to demand, governmental action has been used to hold an effective ceiling on farm commodity prices by selling surplus commodities from storage. Some may argue that these efforts have stabilized prices at an unrealistically low level, but the facts clearly show that this type of government action has been an important stabilizing factor in agricultural markets over the past 10 to 15 years.

5-21 COULD WE COMPETE IN WORLD MARKETS WITH GOVERNMENT DOMINATION OF AGRICULTURE?

This question really has two parts: 1) Can government compete as a seller in world markets, and 2) If the U.S. had increased government control in agriculture could it continue to exploit its comparative cost advantage?

The answer to the first question is clearly yes. World trading in agricultural commodities in many countries is conducted by their governments. In fact, the scale of most international trading requires relatively large traders. In many cases, private U.S. exporters must rely upon selected government services in order to deal with the large governmental and monopoly buyers in other countries. Provision of credit is just one example. Thus, the federal government could probably function quite well as the primary exporter of agricultural commodities.

The answer to the second question is not as clear. The lack of individual incentive coupled with the cost of bureaucracy in a government administered system add up to higher costs of production. To what extent inefficiencies and higher costs would be introduced with greater government involvement is uncertain, but the U.S. comparative advantage in producing farm commodities vis a vis other areas in the world would undoubtedly be compromised.

5-22 CAN THE GOVERNMENT HELP OVERCOME THE SUPPLY-DEMAND IMBALANCE FOR MANY AGRICULTURAL PRODUCTS THAT CURRENTLY EXISTS IN WORLD MARKETS?

The recent supply shortages in world markets have been brought about by many factors. Crop production in many regions of the world in the past two years has been significantly reduced due to unfavorable weather conditions. Changing fishing patterns have also resulted in reduction of available supplies. At the same time consumer demand throughout most of the world has been increasing significantly due to higher incomes and an expanding population base. Consumers with higher incomes demand higher quality foods, which normally adds up to an increase in meat consumption. Higher meat production requires even higher grain production. Thus, in the past few years we've had a situation of reduced crop production and increasing demand for food and feedstuffs. This has brought about a reduction of surplus stocks and helped create the relatively tight supply situation that currently exists.

The U.S. government has taken positive action to help return supply to a more nearly balanced situation vis a vis demand. Releasing diverted and set aside acreage is one example. However, government action alone has not been sufficient to assure adequate supply response in U.S. agriculture. Shortages of energy-related inputs and other factors of production, changing domestic consumption patterns, rapid inflation and other developments have created uncertainty for many agricultural producers. Additionally, just as individual producers may over or under respond to developments in world markets, government action can lead to similar situations. Thus, while government actions can help bring agricultural supplies in line with demand, the government is not omnipotent in achieving a world supply-demand balance.

MISCELLANEOUS QUESTIONS

5-23 ARE FOOD STAMPS HERE TO STAY?

Most persons in the United States are concerned about an adequate level of nutrition for all the peoples of this country. Disparities in income do exist, thus, to assure adequate nutrition some type of income subsidy is necessary for low income consumers. Food stamps seem to be a convenient means of providing the minimum income assistance necessary for low income families to achieve an adequate level of nutrition. There is little reason to believe that this fundamental social concern for the well being of the economically underprivileged will be diminished, thus, food stamps or a similar income subsidy program for nutritional purposes appears likely to be a relatively permanent fixture for the foreseeable future.

5-24 WHAT IS THE IMPACT OF THE STEADILY INCREASING DEMAND FOR AGRICULTURAL LAND?

Higher nonfarm demand for farm land is reflected in higher costs of agricultural production in three ways. First, the price of land is bid up, increasing the capital requirements necessary to purchase it for farming. Second, the higher value of the land is reflected in larger property taxes. Third, as agricultural land in urban fringes is removed from farming, agricultural production is pushed onto less productive land and into locations more remote from the population centers. This, in turn, is reflected in higher production, transportation and distribution costs. With regard to the shrinking land base available for farm production, there seems to be little reason for alarm. The amount of land currently unused for agricultural production far exceeds the acreage removed each year by urbanization. Thus, the major impact of increased nonfarm demand is reflected in higher production and distribution costs and, in the end, higher food prices.

5-25 WHAT IS THE TRADE-OFF BETWEEN LAND AND ENERGY?

This is a particularly timely question in light of the emerging concerns over world supplies of energy. One of the greatest boosts to agricultural productivity in the past has been the substitution of energy from fossil fuels for energy grown on the land. This includes the substitution of mechanical power for animal power, releasing the crop production of one acre in three for human consumption rather than for use by animals needed to power the agricultural plant. More recently, significant quantities of fossil fuel have been used to increase the productivity of our existing land base. Mechanical power has been used to improve drainage and topography of lands that were not well suited to crop production. Additionally, fossil fuels are important ingredients in the production of chemical fertilizers, although only a small share of our total energy consumption is so used. Concerns over energy supplies, however, are forcing a re-evaluation of the use of energy to expand the productivity of land. The verdict has not been reported; however, it seems likely that more careful use of energy related inputs and perhaps less intensive use of some existing cropland may result.

5-26 WHEN SHALE OIL RIGHTS WERE PLACED UP FOR BID BY THE U.S. GOVERNMENT IN 1969, A CONSORTIUM OFFERED \$500,000 FOR FIVE THOUSAND ACRES FOR THIRTY YEARS. THIS IS \$100 PER ACRE OR \$3.33 PER ACRE PER YEAR. IN 1974 THE SAME 5,000 ACRES FOR THIRTY YEARS WENT AT A BID PRICE OF \$240 MILLION. THIS IS \$48,000 PER ACRE OR \$1,600 PER ACRE PER YEAR. WOULD YOU DRAW PARALLELS TO AGRICULTURE?

During the five year period cited a shortage of oil supplies in the U.S. became evident. This brought about a need to seek oil from sources more costly than previously used sources. Thus, by 1974 higher oil prices made it economically feasible for oil companies to produce crude oil from shale rock. Such production was not profitable in 1969. Thus, oil companies became actively involved in bidding for the use rights to government-owned oil shale land, resulting in a significant increase in the prices bid for these leases. A similar situation could occur in agriculture if the government owned and leased all farm land to farmers. During periods of adequate agricultural production there would be relatively little demand by farmers for marginal farm land. Thus, the prices that they would be willing to bid for marginal crop land would be relatively low. However, if shortages of farm commodities developed and prices of agricultural products increased to the point where it would be economically feasible to use this land, bidding for the lease rights would become much more active and the rental prices would increase accordingly. Thus, a parallel could exist between the shale oil situation and farm land; however, it depends upon the economic feasibility of using these marginally productive resources.

5-27 THE AGRICULTURAL AND CONSUMER PROTECTION ACT OF 1973 INCLUDES TARGET PRICES. WHAT ARE THESE? PLEASE STATE THE PRICE OF EACH.

Corn and wheat are the commodities covered by target prices that are of particular interest in the Corn Belt. For the 1974 marketing year, the target price for corn is \$1.38 per bushel and for wheat, \$2.05 per bushel. With rapid inflation these targets may be well below the cost of production for many producers. Target payments are based upon project yields on a farm's feed grain or wheat allotment. Payments are made if the average market price in the first five months of the market year falls below the target price. For the 1975 and 1976 marketing years these target prices are adjusted upward to reflect increases in production costs.

CHAPTER 6

THE SYNTHESIS--A COMBINATION OF THE SYSTEMS

Wallace Barr\*

We live in a world of rules. There is no "dream world" to which we can flee. We are stuck with the situation and with each other; with an economy in which the man-made rules provide the guidelines of operation. However, these rules can be "tilted" in line with needed directions and within a framework of societal objectives.

Whether traditional farmers individually or aggregately survive or perish will be determined less by their individual efforts than by the rules by which the game is played. With the present rules it seems inevitable that most independent farmers will fade away. They will be saved only if new modern rules and techniques are developed.

A Description of a Model: Not "the" Model

An adoption of selected and more desirable features of the pure systems discussed is highly probable. The probabilities are that under the synthesized outcome each of the organizational systems would be given the opportunity to be represented, but no system would be permitted to dominate. All economic activity takes place within a framework of government rules and regulations. Thus, in this alternative government would be viewed not as a competing system, but as a means of maintaining an appropriate balance among the open market, corporate and cooperative systems.

The combination system would find producers retaining much of their managerial freedom; corporations participating within restrictions; cooperatives playing a key marketing role; nonfarm firms continuing to supply inputs to farmers; processing and marketing firms operating vigorously and government supporting an active role for each.

Policies needed to maintain competition within and among systems could vary widely by commodities and stages in the marketing channel. Appropriate policy actions may need to change as developments favor one or another system of market organization. Attention would need to be diverted toward policy mixes that will enhance competition or favor one or another system as the case may be.

Timely determination and implementation of appropriate policy actions would be of critical importance. Thus, a special government body has been suggested to monitor the changing structure of agriculture. They would recommend appropriate policy actions to maintain or "tilt" the system. To carry out the responsibility, a council of advisors would be established consisting of 3-5-7-9 members recommended by the Secretary of Agriculture to the President for appointment subject to confirmation by the Senate. Terms might be for 5-7 years on a staggered basis.

The main function of such a body might be to develop policies to maintain and encourage effective competition, develop new institutions and regulations, and provide for service, research and educational activities. An open market system would need be encouraged. This would entail new marketing techniques.

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The tel-o-sale used in feeder pig sales or computerized marketing methods are alternatives to traditional open markets. It may be necessary to require some minimum percentage of all products be purchased in an open market suitable for each commodity. Vertical coordination could exist for a share (maximum) of the total business. Cooperative activities would be encouraged in some cases without legislation. But in other cases actions might need be through additional legislation. Some small and medium-sized agribusiness firms could be assisted and strengthened while monitoring the larger firms and using anti-trust action when necessary.

In this approach, a variety of checks and balances would operate to keep economic power diffused in the agricultural economy. The possible effects are uncertain. No particular farm income advantage is evident. The maintenance and access to open markets may be of prime importance if managerial freedom is to be retained. The general transition under this type system would soften adjustments on local agribusiness firms and rural communities. Consumers would be expected to be well served under a workable competition system where price, quality and service are related to efficiency, progress and competition.

This description might sound similar to the current system but there would be major changes in the size and number of farm and nonfarm firms, the way the market operates and functions, and other important features.

Obviously the synthesized economic organization--remember all economic systems are man-made--would require legislation. Thus, the type and kind of system that might evolve is highly speculative. Further discussion of this system may be useless; even counter-productive. We will leave the debate of "what ought to be" to you.

#### GENERAL INFORMATION ON THE COMBINED SYSTEM

##### 6-1 IS THE COMBINATION SYSTEM A PROPOSED SYSTEM FOR CONTROL OF AGRICULTURE?

The combination system would be effective or workable competition in which control by any one economic organization system would be avoided. The role of government would be to provide the guidelines and economic climate. Government would assure corporate and cooperative organizations the rights and privileges of growth, but at the same time avoid monopoly power. A monitoring system was suggested, not to control, but to assess the structure of agricultural production and market organization and make recommendations for legislation or regulation. This system might motivate open market mechanisms and transfer methods and possibly require some minimum portion of total output to be sold through open markets. This system's main objective would be to encourage workable competition and diffuse power and control.

##### 6-2 DO YOU VISUALIZE A COUNCIL OF POLICY ADVISORS AT THE LOCAL, STATE, OR NATIONAL LEVEL?

The Council of Advisors discussed would operate at the national level rather than a state or local level.

6-3 HOW MUCH DIFFERENT WOULD THE FUTURE BE WITH THE COMBINED SYSTEM THAN WHERE WE ARE TODAY?

The combination system in two decades would have some characteristics similar to what we have today, still, there would be considerable differences. There will be a lot fewer farmers and the economic structure will differ. A two or three fold increase in the number of farms with sales over \$100,000 per year can be expected; and an increase in those farms with \$40,000 to \$99,999 gross sales. Some of the family incorporated farms may develop into nonfarm corporates that farm. Substantial attrition will occur in the smaller volume farms. Farm input suppliers and marketing firms will continue rapid adjustments resulting generally in fewer and bigger operations bringing greater efficiency into the system resulting in considerable change in rural communities.

The biggest changes are likely in marketing methods. The trend toward coordination through contracts may continue for some products. But, open markets, as we know them, may be radically different. Auctions and terminal market systems may be replaced with electronic marketing mechanisms. The combination system is not concerned with keeping things as they are--this could neither be possible nor desirable. Rather, this system would "tilt" the economic rules in the direction of the values and desires of society. In regard to agriculture the desire for adequate food supplies at reasonable prices is tempered by concerns for equity, justice, freedom, security and other value judgements.

6-4 DOES THE DISPERSED SYSTEM FIT BETTER WITH MOST PEOPLE'S VALUES THAN OTHER SYSTEMS?

People's values vary tremendously and are such that each system will be favored by some. Midwest farmers traditionally have valued highly the goals of ownership, independence and managerial freedom. To this extent the dispersed open market system may fit better with these people's values. However, the younger and more aggressive farmers are seeking opportunities to reduce risk or increase income. They are more willing to forego some of the old values and to coordinate production and marketing through contracts with cooperatives or corporate suppliers or processors. The cooperative system utilizes some of the attractions of the dispersed system along with the large scale market strategies of coordination. The combination system would permit all systems to prevail in a diverse economic system and would tend to preserve some of the dispersed systems features held in high esteem by many people yet not seriously violate the value system of others.

6-5 WHAT SYSTEM ENCOURAGES THE BEST DEVELOPMENT OF PEOPLE?

The system to "best" develop people is loaded with value judgements. What is "best"? It depends upon the criteria selected. Each economic system discussed may be "best" as measured by certain criteria. For example, a highly centralized cooperative or corporate farm system may extensively develop and utilize more people with greater management skills. A dispersed system means more farmers and more rural agribusinessmen, but this system may not require or encourage fullest or best human development. A cooperative system with a competitive dispersed farm operation may mean development of more people.



GOVERNMENT POLICIES AND PROSPECTS

- 6-6 WHAT CAN INDIVIDUAL FARMERS DO TO GET THE TYPE OF ECONOMIC ORGANIZATION AND MARKET STRUCTURE THAT HE WANTS?

It will take collective or group action by general farm organizations, enterprise groups, etc. to persuade Congress to pass laws "tilting" the system as desired. Members at local levels must influence or follow (whichever the case may be) the leaders of their organizations, close organizational differences, and present sound and well thought-through programs to Congress. If realistic and practical programs that are equitable and just are presented, the chances of passage are enhanced.

- 6-7 HOW CAN FARMERS, AS A MINORITY, LEGISLATE PREFERENTIAL TREATMENT?

The passage of Issue 1 (deferred tax on farm land) by Ohio's highly urbanized population should be sufficient evidence that farmers, as a minority can secure consideration. Much legislation at the federal and state level are designed for minorities. If realistic and practical programs are presented, the chances of passage are greater.

- 6-8 DO YOU THINK NATIONAL FARM ORGANIZATIONS WILL EVER GET TOGETHER AND SPEAK WITH ONE VOICE FOR AGRICULTURE IN WASHINGTON?

Historically, the four farm organizations have agreed and spoken as one voice a few times. Most often, there are divergent views. The values of farm people don't differ nearly as much as the methods of attaining those objectives differ. It is over methods that farm organizations part company. Politicians recognize these differences and cite the lack of agreement as a reason for inaction. However, through 200 years of history there has been much land use legislation, bills providing for creation of credit institutions, the land grant educational system, preservation of our environment and natural resources and price and income legislation. Chances of the farm organizations getting together and speaking as one voice appears slim. Many favor diversity. "Papering over" real differences for the sake of unity may not be a good choice.

- 6-9 WHAT STEPS WOULD WE NEED TO TAKE TO INSURE A WORKABLE COMBINATION SYSTEM? A COMBINATION SYSTEM IS PROBABLY MOST PALATABLE--WHAT CAN WE DO TO GET THIS KIND OF SYSTEM?

The detailed steps to assure a workable combination are spelled out in leaflet six in the series of publications entitled, "Who Will Control U.S. Agriculture?" Briefly, they involve: 1) information, service and education, 2) anti-trust and regulatory activities, 3) modification of farm programs and institutions to benefit two-three man farm units, and 4) some innovational ventures primarily to assure access to markets. Cooperatives may need assistance in bargaining, market orders, anti-trust action or other preferential treatment. Moderate sized agribusiness firms may need assistance through management education programs, merger protection or assistance, etc. The role of government would be to support an active role for each.

6-10 ARE THERE SIMILARITIES IN THE PRODUCTION AND MARKETING STRUCTURE OF COMMODITIES THAT YIELD SIMILAR GOVERNMENT POLICIES?

If one looks at the major crops of feed grains, wheat and cotton there are great similarities that yield similar government farm policies and programs. Sugar and tobacco policies are quite different from grains because of the different structure of the industries and differing values of people in support of those policies. Thus, there are both similarities and diversity of government policies relative to the commodities.

In terms of market organization there is great diversity. Sugar is highly integrated and has been essentially a public utility. Milk is a unique cooperative-government market organization. Livestock markets are closely supervised by government through Packers and Stockyards Administration. Grain markets operate under similar rules and regulations, but differ greatly from other commodities. Poultry, fruits and vegetables tend to be heavily concentrated with much of the output under contract, largely with corporates, but to some extent with cooperatives. Contracting accounts for 20 to 25 percent of total farm sales and is the most rapidly growing method of market organization.

Government plays a major role in that the economic rules of the game are legislated (like feed grain program) or are developed under government regulation (like milk). Government agencies do supervise and enforce compliance to the laws and regulations and thus do appear to play a leading role in production and marketing. However, government only enforces what is acceptable to society.

6-11 WHAT ARE THE RELATIVE ADVANTAGES AND DISADVANTAGES TO COLLECTIVE BARGAINING IN AGRICULTURE (AND LABOR)?

Labor unions bargain for wages (a kind of price) and employment conditions plus fringe benefits (comparable to terms of trade in agriculture). Employers are required by law to recognize and bargain in good faith with labor representatives if the majority want a union. Control over the supply of labor is accomplished by either the employer or the union. Unemployment is cared for by union funds, unemployment insurance or public assistance. Labor's reliance on the union shop is designed: 1) to improve wages or attain a shorter work week, 2) to protect against arbitrary actions through seniority rules, pensions, severance pay, and safety conditions, and 3) to improve social status through some control over hiring, firing and promoting.

Farmers ultimate purposes in seeking bargaining strength is: 1) to improve income through improved prices, 2) to improve terms of trade, and 3) the attainment of some control over their own destiny. Substantial trade-offs of some individual freedoms for the stability of collective bargaining must occur. Success requires leaders with dependability, integrity, competence and trustworthiness. Membership must be fully committed and be loyal, knowledgeable and understanding. The organizational costs of securing and holding members and opportunities foregone can be substantial.

Potential sources of gain from effective farmer bargaining are in providing procurement services, improving efficiency in the marketing and processing system, and increasing prices to consumers. Pitfalls of effective bargaining are proportional to the success. The more success the greater the effort to retain the gains. Higher prices or incomes means a production response and possible need for control devices. Substitutes and synthetics may be encouraged and place limits upon price goals. In addition, consumers (foreign or domestic) may turn away from higher priced products.

6-12 GIVEN THE SWING TO FREE MARKETS, IS GOVERNMENT GOING TO BE MORE OR LESS IMPORTANT IN AGRICULTURAL PRODUCTION AND MARKETING IN THE NEXT TEN YEARS?

Policy, since the defeat of the wheat referendum in 1963, has consistently and persistently through both Democratic and Republican administration been toward a more market oriented system. We are operating in 1973-74 in essentially a free market which increases risk and uncertainties. One must realize that a free market has lots of rules and assistance from government. Remember, every economic system in the world is man-made--it is not God given.

Chances are that government will be more involved in the farm sector in 1985 than in 1974. It may be in both product or developing market rules or institutions. For example, legislation in 1973 provides for government farm programs through 1977. A set aside or land retirement provision is available for corn, wheat and cotton even though none is applicable in 1974. Target prices and price supports (low due to inflation) provide a new mechanism in an attempt to insure adequate food supplies. Farmers are eligible for payments on the allotments for the difference between the target price and market price or support price, whichever is higher.

Issues around food policy will abound in the years ahead. Food reserves, food stamps, feeding the hungry at home and abroad, trade policies and farm policies are likely to attract much attention. A high degree of foreign government involvement with their agriculture also tends to generate pressure for our government to counteract these forces through production and marketing rules, regulations and institutions.

6-13 AS INFLATION CONTINUES, WILL THE GOVERNMENT STEP IN TO CONTROL PRICES?

The "mood" in early 1974 seems to be the opposite--to remove price controls and discontinue the programs of the cost of living council. Controlling prices is working on the symptom and does not cure the disease. The disease of inflation must be cured by improved productivity and fiscal and monetary (both domestic and international) policies that avoid over stimulation of the economy.

6-14 WILL CONTINUED INFLATION FAVOR ANY OF THE ALTERNATIVE SYSTEMS OVER THE OTHERS?

Inflation, poor performance in many firms, and lack of confidence in the dollar encourages nonfarm investment in land. Continued inflation and favorable returns in farming may attract some nonfarm corporates into farming. This is particularly true if they have difficulty in securing adequate supplies through contracting. The huge capital investments in land are a deterrent.

Present owners of land may be most favored by continued inflation. Inflation has increased their equity and borrowing capacity thus improving their ability to purchase additional land. This may favor the dispersed system or more likely the combination system. In the very long run these financially capable owners could develop into a landholding class of people.

#### PRICES AND COMPETITION

##### 6-15 WHY HIGH QUALITY FOOD AT A LOW PRICE? DOES LABOR GIVE HIGH QUALITY WORK AT A LOW COST?

Food has been low priced to consumers relative to after tax income due to a very modern farm production system and an effective distribution system. The U.S. food system does not have excessive profits. U.S. consumers in 1971 were spending less than 16 percent of their disposable income for food. Starting in 1972, food began taking a higher percentage of U.S. citizens' disposable income and may be over 17 percent in 1974. Food is reasonable when compared to other nations in either price or share of income spent for food. But consumers paying an increasing number of dollars for the family's food, with rising commitments for clothing, fuel, plus incomes that rise less rapidly are placed in a financial squeeze.

Wage rates per hour in the nonfarm sector may appear high to many. But highly skilled labor combined with advanced technology (supplied by capital) and under good management results in lower costs per unit of output. So, labor provides high quality work at low cost per unit of output, just as agriculture supplies relatively low cost food.

##### 6-16 HOW CAN WE COMPETE WITH JAPAN?

Japanese agriculture (with minor exceptions) is no match for U.S. farmers. Japanese farmers produce less than 80 percent of their food needs because of too little productive land for their 100 million people. In addition, costs of production per unit of farm output are very high. They have many import protection devices on the farm items they produce.

U.S. industry does and can compete with Japan in many products. To retain our advantages, we must develop cost reducing technology and efficient marketing systems. For some products, the Japanese will have a competitive advantage.

World trade is based on the principle that we trade something we have for something we would rather have. Remember, we must sell something if we want to buy something. It is of interest that Sony, a Japanese firm, has built a TV plant in San Diego. Another Japanese built a soysauce plant in Wisconsin. Volvo, the Swedish auto firm, is building a plant in Norfolk, Virginia. One of the reasons for such activity is that costs per unit of output are shifting to the advantage of the U.S. A major effect is to increase employment opportunities of American citizens.

6-17 DO SOME COMPANIES GIVE FARMERS THE "BUSINESS ON PRICES" ETC.?

The phrase "business on prices" implies charging excessively high prices for inputs or paying farmers excessively low prices for products sold. There may be isolated cases of such action. However, the long run competitive forces will rectify such practices through new investment by competing firms or farmers recognizing what happens and discontinuing trade with such firms. If the phrase applies to contract negotiations on prices or other terms of trade, then farmer bargaining associations are encouraged as a countervailing power.

6-18 BECAUSE OF THE TRUCK STRIKE, SHOULD AGRICULTURE BECOME MORE ACTIVE IN THE TRANSPORTATION BUSINESS? HOW?

The truck strike protesting rising fuel costs would appear to be a temporary inconvenience although one quite harmful to suppliers or to livestock or specialty crop producers with products ready to go to market. Agricultural groups should be involved in transportation because of its great importance to distribution of both food and feed to domestic and foreign buyers. The dock strike or similar disruptions in the flow of goods are examples. If active means in developing legislation or regulation, than a "yes" seems appropriate. If active means owning and operating equipment or a transportation system the answer is "that depends." A highly centralized cooperative or corporate system may find it advantageous to own and control a portion of their transportation equipment. It may not be economic.

INVESTMENT CAPITAL, CREDIT

6-19 ARE THE JAPANESE BUYING RANCHES AND FEEDLOTS IN THE U.S.?

There have been lots of rumors that the Japanese are buying land and ranches in the U.S. as well as industrial plants and mines. Most are just rumors: only a few are fact. In regard to land, the only Japanese purchase (to my knowledge) has been in the coastal region of North Carolina. Some Italians bought land there, too. In both cases, the purchase included "swampy" land that needs drainage and other development requiring massive capital investment. Apparently, Americans considered the risk to be too high. This land development will mean jobs and incomes to Americans working with a minimum number of management people representing the investors. With devaluation of the yen and the energy crisis effecting Japanese and other major developed nations economic activity, there may be less pressure for the Japanese to expand investments in land or industry in the U.S.

6-20 WHAT ARE THE IMPLICATIONS OF PEOPLE FROM OTHER COUNTRIES INVESTING IN THE U.S.--FOR EXAMPLE, JAPAN, GERMANY, FRANCE, ETC?

The Japanese, French, Italian, British, Germans, etc. investing in the U.S. is not new. Shell Oil is a Dutch firm and Lever Brothers is a British-Dutch firm. Sohio is British Petroleum. A new entrant may be the Arabians investing in U.S. firms, especially banks and refining and distribution facilities. In total, foreign firms have about \$15 billion in U.S. investments. With devaluation in 1971-73 the flow of dollars and foreign investment into the U.S. increased which had the effect of creating job opportunities and incomes for U.S. workers. Foreign firms investing in the U.S. must operate by U.S. laws just as U.S. firms investing overseas must operate within other countries laws.

The U.S. has been a big investor in foreign nations. U.S. capital investment in foreign countries totals \$90 billion or six times that of foreign investment in the U.S.

In regard to implications, investment between countries tends to broaden markets, contributes to employment and improved levels of living in both countries, and increases trade and interdependence. But, people do fear economic domination by people in other countries. Other nations have "appropriated" some multi-national operations ending foreign ownership.

6-21 HOW DO WE GET YOUNG PEOPLE TO STAY IN AGRICULTURE?

There are adequate numbers of young people interested in farming. One young farmer frequently replaces two to five older farmers in today's highly mechanized agriculture. The young farmer frequently owns a base of operations and rents the remainder of his acreage. Farm incomes like 1972, 1973 and 1974 may attract more than enough and perhaps excessive number of replacements.

The biggest problem is transferring ownership and management to the younger generation. Father-son partnership arrangements are used frequently and farm incorporation is another way to make the transition.

WORLD TRADE OUTLOOK

6-22 WHAT IS THE WORLD FOOD POPULATION SITUATION?

Millions of people in Asia, Africa and Latin America do not have enough food and lack adequate protein. Some poor people in the U.S. and other developed countries have the same problem. How to feed the world's growing population is a most basic of human problems. The world food problem is not new; it has always existed. The magnitude of the problem has changed because population growth rates are such that unless abated, will mean doubling the population near the turn of the century. And the amount of land suitable for cultivation is limited. Other consideration grew out of these basic conditions.

The world has never adequately fed all its people. A large proportion (about two-thirds) has suffered more or less from hunger and malnutrition and all of its consequences. The less developed countries have increased output percentagewise more than the developed countries in the last few years, but the population growth rate of about 2.5 percent equalled the food production increase and resulted in per person food supplies today little different than ten years ago. Population in these portions of the world is pushing hard on the land resource.

However, in the industrialized and wealthy countries with low birth rates, food supplies have increased between 15-20 percent per person in the last decade. People in these countries are shifting to diets with more meat, poultry, milk, fruits and vegetables. But nations highly dependent upon imported petroleum will find themselves facing a lower level of living as they pay a higher proportion of their income for imported fuel. This will slow down improvement of diets.

6-23 ARE WE GOING TO PRODUCE FOR OUR POPULATION AND OTHER LANDS TOO? WILL WE HAVE UNLIMITED PRODUCTION IN THE FUTURE?

Yes, we are going to export farm products. The U.S. has the resources and ability to produce cereals, cotton, tobacco and some other farm products much beyond our domestic population needs. This year we will need less than 25 percent of our wheat output for human use in the U.S. We use less than 50 percent of the soybeans and soybean products produced in the U.S. We normally export one-third of our tobacco and near 20 percent of our corn. We export around 40 percent of our cotton crop. Most of our farm exports are sales for dollars. Farm exports under aid program usually run near \$1 billion. In 1973, we exported nearly \$18 billion worth of farm products or 20 percent of total farm sales.

In regard to unlimited production, farmers in 1974 can plant and grow any amount of the cereals (not so for tobacco) they want within the limits of essential inputs like fuel and fertilizer. U.S. farmers and farmers around the world in both exporting and importing countries are responding to the profit motive by expanding acreage and output. Many importing nations are interested in rebuilding food reserves but their ability to buy is frequently constrained by limited foreign exchange which is compounded by the need to buy energy.

We cannot count on adverse weather and poor fishing each year. We've had the "one-shot" increase in massive trade expansion with Communist Bloc countries. We can count on long-time growth in trade with the industrialized countries that are shifting to more meat use. This will further expand the potential market for feed grains where this country has a considerable comparative advantage.

Sometime in the future when the weather is normal, we will see some decline in foreign demand. With rapid increases in costs, farmers and the agribusiness community will find themselves in a cost-price squeeze even though farm price levels will be much higher than 1966-72.

The Congress of the U.S. did pass agricultural legislation effective for 1974-77 designed to protect agriculture from over-production. This legislation provides for allotments on wheat, corn and cotton, set asides, and income payments through a target-support price mechanism. The price mechanism is at inadequate levels considering inflation rates. But the probabilities are high of using allotments and set asides prior to expiration in 1977 if we have normal weather around the world.

6-24 THERE WAS MUCH TALK IN THE MID-1960's ABOUT FEEDING THE WORLD. THEN THE BOTTOM DROPPED OUT OF THE GRAIN MARKET. CAN THE SAME THING HAPPEN AGAIN?

That period became known as "feed the world" and grew out of poor weather in the southern hemisphere. Aid programs were expanded tremendously to feed people in many countries, but especially India, Pakistan, and what is now known as Bangladesh. Many people, including leaders in all farm organization, government officials, fertilizer and machinery industries, etc., assumed a new era had arrived. This was much to their later regret when prices fell and incomes were squeezed.

In the mid-1960's the right question was not being asked. That question was, "Who will pay for expanded exports?" The poor and underdeveloped countries did not have the money and U.S. taxpayers were more interested in reducing taxes than expanding aid. The results were a contraction in the volume exported, lower farm prices and incomes plus lower input needs. Many input industries expanding on the assumption of "feeding the world" ended up with excess productive capacity and low returns and in some cases bankruptcy.

Some similarity to the mid-1960's exists today. Part of the rapid export expansion has been due to lousy weather and poor fishing. But Communist Bloc countries are new buyers (maybe erratic) of our farm products. Long-time upward trends in trade with our traditional customers will continue. But the profit motive will work and policies will be to expand output of food in both exporting and importing countries. It appears that there may be some "squeeze" on farm incomes in two or three years at higher price levels than 1966-73. Some further stress may develop in the years ahead as poor weather or other emergencies occur.

#### MISCELLANEOUS

- 6-25 HOW CAN MR. BUTZ SAY THE FAMILY FARM HAS SERVED US WELL WHEN THE PERCENT OF POPULATION ON FARMS, SINCE 1940, HAS DROPPED FROM 25 PERCENT TO 5 PERCENT?

Secretary Butz's comment on the "family farm serving us well" was in reference to these people's ability to adopt new technology, adjust to adversity and expand with economic needs in meeting the nation's food needs. The decline in the percentage is because some producers chose to quit farming and work in other occupations where the returns would be greater. Some is due to one young farmer replacing several retiring farmers. Also, a part of the 35-year decline to five percent is a result of rapid population growth in the nonfarm sector.

- 6-26 IS OUR EDUCATIONAL SYSTEM (VOCATIONAL SCHOOLS, AGRICULTURAL TECHNICAL INSTITUTE, ETC.) GEARED TO THE FAMILY FARM OR BIG AGRIBUSINESS?

Both. The investigation of curriculum will show that both objectives are serviced. Actual placements of graduates will show some start farming, but most go to small, rather than large agribusiness firms. These firms tend to service local farmers. Thus, training for farming and for employment in local firms are quite compatible.



