

SOME ISSUES IN LAND TENURE, OWNERSHIP AND CONTROL IN DISPERSED VS. CONCENTRATED AGRICULTURE

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One of the uncritically accepted assumptions regarding the structure of American agriculture involves the inevitability of continuing increases in farm size, concentration of control, and specialization. Until quite recently, the power of this assumption has been sufficient to inhibit any serious efforts within the agricultural establishment to analyze the possible consequences. This paper points up some of the issues that seem likely to arise if there is a continuation of these trends toward a concentration of economic power in agriculture.

It explores several problem areas that promise to prove critical in the shaping of public policy toward agriculture in the coming decade.

The Fragmentation of the Agricultural Sector

We can begin this exploration by noting that the farm sector has become so specialized that we can no longer describe it in generalities. Farm price supports unquestionably contribute today to rigidity and inflation in dairy products and sugar, but have been much less significant in foodgrain and feedgrain crops in recent years. In the international dimension, this is reflected in a bimodal policy structure: Prices for wool and sugar can be supported by import policies; price supports for grains and cotton involve export policies.

The most portentous change involves the increasing cleavage between the livestock and the grains sectors. This functional separation has probably been the primary cause for the decline of broad-based farm organizations and the rise of special-interest commodity groups. This sets the stage for jurisdictional conflict within agriculture that is analogous to the conflicts within organized labor when structured by the boundaries of crafts or trades. At a time when the trend in organized labor is toward a broad-based, industry-wide structure, agriculture is fragmenting itself in a fashion that is reminiscent of ancient crafts and guilds.

It has been fashionable recently to observe that agriculture is losing its uniqueness. If life-styles are the unit of measurement, this is true. But it may be more useful for economic analysis to point out that the production sectors within agriculture are becoming more parcelized, fragmented, and specialized. Farm firms that could in the past internalize many of the countervailing trends in commodity prices and market gyrations must now struggle with market-induced external forces that leave them much more exposed to unstable prices.

As a consequence, an agricultural structure is evolving that will increase tension and conflict within agriculture, in both functional and regional dimensions. Agriculture is not only losing its uniqueness; more importantly, it is losing its cohesion.

The Lack of Balance in Popular Perceptions of Structural Trends in Agriculture

The discussion of tenure, control, and concentration in agriculture has been distorted by our taste for "false bad news". For example:

1. The family farm labor force is declining but the proportion of the labor force employed in regions where family-type farms predominate is increasing. From 1965-67 to 1975-77, the hired farm labor force in the North Central Region increased 27 percent, while decreasing by 22 percent in the South and 13 percent in the West. In the same 10-year period, the proportion of regular and year round workers in the hired farm labor force increased, while the proportion of seasonal and casual workers declined.¹

2. Full-tenant operated farms have been declining, but the proportion of farm land operated by part-owners has sharply increased. The proportion of total farm land operated under lease has remained relatively constant, but most of it is now operated by individuals who also own land. The proportion of the nation's farm land that is under the managerial control of those who approach their managerial decision-making with the orientation of owner-operators is probably at an all-time high.

3. Data on concentration in farming based on the gross value of products sold seriously over-state the degree of concentration based on value-added. The data are even more misleading if they lead to inferences with regard to concentration measured in land use. The output from crop acres is still widely dispersed among a population of family-type farms, although their size in acres has been steadily increasing.

4. The loss of land from agriculture due to urbanization, while serious, has been over-dramatized on the basis of statistics that

¹ Gene Rowe, *The Hired Farm Working Force in 1977*, U.S. Dept. of Agriculture, ESCS, Agr. Economic Report No. 437, October 1979, pp. 15-16.

cover an exceptional period in the evolution of the national urban system.

Perceptions of the nature of structural change in agriculture have been distorted by these and other similar tendencies to strive for dramatic effects in reporting the major changes that are in fact under way. One consequence has been the diversion of attention from the key questions of who will emerge as owners of the assets of agriculture, and who will make the investment decisions that will determine the pace and direction of future agricultural advances. The investment decision-making function is crucial.

Investment Consequences of Structural Change

A continuing trend toward more highly concentrated and specialized agricultural production units will generate questions about the proper source of investment capital and the proper locus of investment decisions. There has never been a significant demand in the United States for the social ownership of agricultural land. Demands of this nature have found little support because the ownership pattern of rural lands has been so widely diffused that occasional large holdings were not perceived as either an economic or a political threat to conventional goals and values.

If the ownership of agricultural land does become relatively concentrated, we can expect the demand for land reform in the United States to accelerate. In the political arena, this will reflect concerns that are based primarily on questions of equity. In the economic arena, the issue will be focused on questions of efficiency in the provision of capital, and on the quality of investment decisions.

One consequence of concentration in agriculture is to inject a managerial link into the decision chain that relates investment decisions to production outcomes. Is this link needed? Does it serve a useful purpose?

If investment decision-making is to be taken out of the hands of producers, there should be some persuasive reason why they can no longer be permitted to determine the direction of future development in agriculture. It seems reasonable to argue that no determination of this kind has been made, and that the question of "who will make the investment decisions in agriculture" has not been asked.

Instead, a more likely explanation for the emerging concentration of economic power, and of a managerial cadre linking capital to labor in agriculture, is the institutional structure that makes it difficult for individuals to generate capital on the scale now needed in modern farming. The proprietary farm firm suffers from two disadvantages:

- (a) It must purchase production inputs at retail and pay retail sales tax.

(b) It is subject to income tax at the progressive personal rate, rather than at the flat rate that characterizes the corporate income tax on incomes over \$100,000.

As a result, an advantage is given to the form of business enterprise that is large enough to be taxed at the flat 46 percent corporate rate, or to proprietary firms that are large enough to benefit from the progressively increasing value of business-expense deductions from personal income tax liability.

In either case, a larger scale of farming enterprise is needed to secure these advantages. To operate the needed large-scale enterprise a managerial class is needed that does not provide the capital and does not provide the labor.

For this more complex managerial structure to operate successfully the number of variables dealt with by management must be reduced as much as possible. This is achieved by concentrating on one crop or product, and by selecting the crop or product that can be produced with the smallest amount of managerial input.

This leads to a preference for monocultural field crops or single-product livestock feeding enterprises. This further accelerates the trend toward concentration, by generating both backward and forward linkages to input-supply and product-marketing firms that are tailored to monoculture, or one-product firms. This weakens the market infrastructure that had grown up in the past to serve multiple-crop or "mixed farming".

This trend toward concentration and specialization is furthered by the system of higher education in agriculture which puts a premium on turning out "managers."

Flexibility, adaptability, and resiliency are lost in the process. A production system in agriculture that combined the functions of capitalist, manager, and laborer permitted the shortest possible information chain linking decisions to invest (and capacity to invest) with the evaluation of the outcome. There was no managerial layering in the feedback chain. When something was wrong with a field activity the capitalist knew it without any filtering of the information through an intermediate managerial relay.

When wage rates were unsupported by earnings of the firm, the wage rate could be adjusted immediately. At the extreme, production could be stopped with a minimum of social costs. The system thus contained built-in stabilizing devices that led to efficient investment and production decision-making.

For the loss of this closed-circuit feed-back chain represented by the single-proprietor farm firm to be a social gain there must be some larger advantages from concentration and specialization. What are they? Possible answers include:

(a) Ease and reduced cost of mobilizing capital in large amounts.

(b) Production efficiencies to be gained from a concentration on standardized, repetitious tasks.

(c) Institutional advantages growing out of the educational system, which in effect produces trained people whose outlook and training causes them to prefer a structure of agriculture that includes a managerial echelon, which is the level for which they have been equipped. They are risk-averse.

These are powerful incentives for a continuation of the trend toward a separation of decisions regarding investment from decisions regarding production activities in agriculture. They offer short-run gains that can be captured by individual firms, but they also introduce a bureaucratic managerial structure that seems likely to involve long-run social cost.

Some Potential Consequences of International Market Linkages for Highly Concentrated and Specialized Agricultural Areas

Agricultural states have not been as seriously affected by domestic swings in the business cycle as have industrial states in recent years.²

This may change with increasing concentration and specialization in agriculture. The domestic business cycle is increasingly enmeshed in the international business cycle, especially as it affects our developed-country trading partners. The rapid expansion in export markets for agricultural products cushioned the effects of the domestic downswing in economic activity in 1973-74, and again in 1979-80. This may not be repeated in the next business cycle downturn.

The much greater dependence of monocultural or duocultural areas on foreign markets (the corn-soybean and wheat-sorghum states in particular) may result in a feed-back to agriculture of future U.S. business cycle trends via the international market. The growing interdependence of the markets if the developed countries may thus reduce the cushioning effects that export markets have provided agriculture in the 1970's.

If this occurs, it will reveal the vulnerability of agricultural areas that have experienced the most pronounced concentration in firm size and specialization in one or two products.

The Larger Significance of Concentration in Agriculture

Are we losing flexibility in the agricultural sector? Tibor Scitovsky attributes the survival of capitalism to its flexibility.³ The U.S. agricultural sector has had one of the best "flexibility indexes" of any sector in the U.S. economy. Why?

²Norman J. Glickman, *International Trade, Capital Mobility, and Economic Growth: Some Implications for American Cities in the 1980's*, Report to the President's Commission on a National Agenda for the 1980's, Symposium sponsored by the National Academy of Sciences, et al. Washington, D.C., June 3-4, 1980, p. 3.

³*Can Capitalism Survive?—An Old Question in a New Setting*, Am. Econ. Review, Vol. 70, No. 2, May 1980, pp. 1-9.

Is it because the labor force in large part could share in the capital gain in land values? Is this why the structure of agriculture could be altered so drastically without leading to violent protest?

One possible argument is that a structure of small, privately owned farms reduces the social cost of exit from agriculture because it remains reasonable to believe that entry is possible, or reentry. If entry into agriculture is closed, or very difficult, it will retard exit.

The difficulty of getting started in farming is thus of much wider significance than is typically assumed. It mirrors the "freezing-up" of the agricultural sector, which was the last major sector that offered relative freedom to small-scale entrepreneurs. With agriculture practically closed to entry by any but the wealthy, how is it possible to maintain the illusion of an open economy guided by freely functioning markets?

Loss of flexibility reflected in a growing concentration of control in agriculture thus has a significance that extends far beyond the agricultural sector. It erodes the empirical base for a belief in a market economy.

Why Be Concerned About Agricultural Structure?

Legislative and congressional support for teaching, research, and extension in the entire field of agriculture will be determined in the future by the votes of non-farm people. This does not mean that farm support is unimportant.

It will be essential to retain the loyalty of the farming community. I see some evidence that support for agricultural research from that source is eroding. But support from the farming sector alone will not be enough to insure the flow of public funds for investment in the agricultural educational effort that we believe is needed.

It is in this context that the questions of structure, organization, and control in agriculture acquire their critical importance. Concern with the structure of agriculture is not primarily a question of efficiency in resource allocation, although that is a major consideration.

It is above all a concern with equity, and increasingly with equity as it is perceived by the non-farm population. It is primarily their money that is being spent in the agricultural colleges, experiment stations, and extension services.

In the institutional structure that has prevailed in the past it has been reasonable to assume that the investment of public funds in agricultural education, in all of its dimensions, has not been creating a rentier class. If opportunities were created by this investment, and particularly in research, for the capture of economic rent it was assumed that freedom of entry, ease of access to land and capital, and competitive markets would prevent the capture of these rents by a small group of unintended beneficiaries.

This assumption can no longer be supported. We have increasing evidence of the concentration of the economic rent generated by agricultural research in the hands of a steadily declining number of landowners. This has not yet reached crisis proportions, in a political sense, but it is foolhardy to insist that no crisis is approaching.

This poses a greater long-run threat to the land-grant educational system than any shortages of resources or restrictions on markets. We are the custodians and the beneficiaries of a long tradition of public trust and confidence in the dedication of agricultural educators to the public good. If the impression grows that the investment of public funds in agricultural education is creating a rentier class, it will damage and ultimately destroy the base for the land grant system.

This is the context in which a concern for the structure of agriculture should be interpreted. We now have a concentration of landholding in agriculture in the United States that is as skewed as is the landholding pattern in many countries now convulsed by land reform efforts. We must anticipate a growing movement for land reform in the United States, generated and supported primarily by non-farmers.

This prospect is quite different from the concern over concentration of economic power in non-farm businesses. The primary reason for this difference is the dominant role played by land in the asset structure of agriculture. Concentration of land ownership in the U.S. does not imply the same loss of personal freedom that is characteristic of an agrarian society in a less-developed country. But it does violate some of the most deeply felt sentiments of equity and fairness, even in an industrial culture. Freedom of access to food-producing land is still one of the most treasured freedoms of the social order.

***Policy Issues and Educational
Approaches***

