Who Will Control U.S. Agriculture - What's This Issue About?

John Gordon
Otto Doering
Bob Jones
WHO WILL CONTROL U.S. AGRICULTURE --

What’s This Issue About?

Cooperative Extension Service • Purdue University • West Lafayette Indiana
WHO WILL CONTROL U.S. AGRICULTURE

What's This Issue About?

John Gordon, Otto Doering and Bob Jones. Agricultural Economics Department

The question of "Who Will Control U.S. Agriculture?" poses an important policy issue for our society today. The purpose of this publication is to answer as simply as possible ten basic questions concerning this issue. Hopefully, the responses to these questions will assist you in understanding the issue and, at the same time, stimulate your interest in further study and encourage your active participation in its resolution.

1. What is Control?

Control, in the context of this question of agricultural policy, is the ability to determine the key decisions in producing and marketing farm products.

These key decisions include determining what agricultural products to produce and market, how to produce and market these products, when to produce and market these products, and how much to invest for future growth. Farmers are especially interested in these questions but, because each of us is a consumer, everyone is affected by the outcome of these decisions.

2. Is this a New Issue?

For the past forty or more years agricultural policy has been dominated by acreage control and income support programs. However, society has always had the problem of deciding how agricultural production and marketing should be organized. Different countries have settled on different solutions to the problem. In most of the United States a type of organization associated with the family farm has prevailed and has been supported by various types of national legislation. This support included land settlement and ownership policies, provision for research support and information dissemination, farm income support, and authority for farmers to work together in cooperatives and bargaining associations. These measures and others provided an institutional framework conducive to the development of
the independent, family-farm type of agricultural organization.

3. How is Anyone Able to Influence the Key Decisions in Agriculture?

Basically, there are three ways of acquiring the ability or power to influence these key decisions.

A. One way is to own or otherwise control the use of a scarce factor of production such as land, labor, capital or management. All of these factors of production are important in farming but the input which has historically been critical in the sense of control is land. Being able to say how land is used in the production process gives a person a considerable amount of power in influencing the key decisions in agriculture.

B. Another possible way is to gain monopoly power over a product or market. Marketing orders and agreements sometimes possess an element of this sort of control. However, no one in agriculture has been able to gain much monopoly power because of factors such as one farmer's product being basically the same as another farmer's product and the existence of large stocks.

C. Still another way is to gain control over the institutions of an entire producing and marketing system. This occurs with vertical integration as more and more marketing functions are provided under the auspices of one management.

4. What do You Mean by "the Agricultural Producing and Marketing System"?

Figure 1 is helpful in explaining this system. The basic idea characterized in this diagram is that in order to provide food and fiber to consumers several steps or market functions must be performed. Of course not all farm products move to the consumer through every one of these steps. But, in general, farmers buy inputs (machinery, feed, fertilizer, fuel, credit, information, etc.) from input suppliers and then produce an agricultural product of some kind. The farmer then sells his product to a marketer. The marketer may assemble products from several farmers and grade the products he buys. He may then sell to a processor who performs certain services and then sells his processed product to a wholesaler. The wholesaler then sells to retailers. Ultimately, the product reaches the consumer.

Several years ago it was fairly easy to identify individual firms performing each of these functions. There was a market with

![Diagram](image-url)
buying and selling between each step or level of the ladder. Today open market trading between these functions is often nonexistent. Many products reach the retail level without ever being sold in an open market.

Government has played a role throughout the entire system. A major activity has been to make and enforce regulations which limit behavior deemed harmful to the public interest. In addition to regulatory activities, government has acted in other areas such as assisting in risk bearing, providing market information, and supporting research, education and demonstration.

5. In the Context of this Agricultural Producing and Marketing System, Who Controls U.S. Agriculture?

Ten to twenty years ago it would have been less difficult to answer this question because at that time control of the key decisions in agriculture rested to a large extent with individual farmers. They would determine what to produce, buy, and sell after reading the price signals which filtered down through the system from the consumer.

Today it is not so clear who controls the key decisions. The answer seems to vary from commodity to commodity. For the major crops produced in the Midwest, control still rests primarily with the individual farmer. However for fruits, vegetables, eggs, broilers, turkeys, sugar cane and beets, as well as other commodities, control has shifted from the individual farmer.

Looking into the future there is a great deal of concern that control of a large number of additional commodities may shift rather rapidly away from independent farmers. The agriculture of the future may not be characterized by individual farmers as we know them today.

6. How Might the Institutions of Our Agricultural Producing and Marketing System Be Organized in the Future?

This question has been given a considerable amount of thought by a committee of agricultural economists in the North Central Region. This committee has identified five alternative organizational forms that might characterize agriculture in the future:

A. A dispersed, open market system.

This system is characterized by farms of modest size, freedom of the operator to make management decisions, and the existence of open markets to buy inputs and to sell farm products.

B. A corporate agriculture.

In this system most agricultural production would be controlled by a small number, 500 or fewer, large industrial-type corporations. This type of farm is to be distinguished from the family-owned incorporated farm. Agricultural production would be industrialized to the maximum extent possible. Some of these corporations might deal exclusively in agriculture while others might be conglomerates.

C. A cooperative agriculture.

Farmers would belong to large cooperatives which would handle most input purchasing and product marketing decisions. Farmers could own their land and retain most of their production independence although they would have some restrictions placed on them by the cooperatives. Farmers would own the cooperatives and approve the restrictive decisions.

D. A government administered agriculture.

This system would represent a choice by society to direct or even replace private action in the control of agricultural production and marketing. Public action could be taken to control land use, production, marketing, pricing, or income
distribution depending upon what outcome government wanted to influence.

E. A combination system.
   In this alternative no single system would dominate. All of the above sys-
   tems would operate. Government would support an active role for each.

If present trends continue it is generally felt that agriculture will be increasingly con-
trolled by large corporations. However if producers, supply and marketing firms, con-
sumers, and the general public prefer another organizational form, then those in-
volved in policy-making should be able to modify our legislative framework to provide
for the preferred form of control.

7. What Reasons Are There to Think that Control May Be Shifting to Corporations?

Several important trends can be identified from three places within the system depicted in Figure 1.

A. Trends occurring on the farm.

a) The long term trend towards fewer but larger farms is continuing. Between 1950 and 1972 farm numbers in the U.S. declined by about 50 percent from 5.6 to 2.8 million. But in 1972 about 10 percent of the largest farms sold 61 percent of the farm product.

b) The influence of large scale firms has been growing through ownership of land and through contracts for production. In 1969 about 6 percent of total farm output was produced on land owned by large corporations. Another 12 percent of output was produced under contracts. The extent of contracting varies widely from commodity to commodity.

B. Trends occurring among agriculture-related firms.

a) Just as in farming many small firms have either grown larger or they have gone out of business. For example, the number of food manufacturing plants has dropped from 42,000 in 1954 to less than 27,000 today.

b) Perhaps more important has been the trend toward increased vertical integra-
tion. No longer are we able to identify many firms engaged in just one of the
marketing functions depicted in the ladder in Figure 1. To illustrate, over 80
percent of the supermarkets are integrated into the wholesaling function.
As firms increase the size and scope of their operations, they undoubtedly con-
sider the possibility of including the farmer or producer functions in their
total operations.

C. Trends occurring in government legislation.

Without really intending to do so, government has indirectly influenced the
trend toward shifting control away from individual farmers through legislation
directed toward taxation, environmental restrictions, employee work rules, land
use policy, and agricultural acreage control and income support programs.

In summarizing this answer, a number of factors are tending to shift control from
individual farmers to large corporations. Any single trend may not be significant but
since they are all occurring simultaneously the rate of change may be rather dramatic.

8. Who Might Be Affected if Control Shifts Further from Individual Farmers to Large Corporations?

Several groups may be affected, but the change is occurring so gradually that many
people are unaware of the issue.

A. The traditional role of the farmer, where one man performs many functions,
would probably disappear. Many management decisions would be made in corporate offices. Some farmers would become a part of the management team. Others might become hired farm laborers.

B. Hired farm laborers might gain in terms of wages and fringe benefits through unionization.

C. It is likely that consumers would gain little, if anything, in terms of lower food prices. In the case of most commodities now produced on family farms, no major production efficiencies exist in farming for units beyond the size of an efficient independent farm operation. Historically, lower production costs of farmers have been passed rather quickly to consumers. Marketing efficiencies are possible, but there is doubt whether they would be passed on to the consumer. If control became concentrated enough, consumers could be (a) forced to pay higher prices, (b) less able to exercise consumer choice and influence over products supplied, and (c) more subject to disruptions in the flow of food supplies.

D. Small businessmen dealing with farmers would probably be adversely affected. The large corporations would probably be integrated into the input supply and product marketing functions.

E. Rural communities are potentially very much affected by this issue. Farmers and small businessmen trading with farmers are an important part of the economy of rural communities. In many communities agriculture is the primary economic base. In addition, independent farmers have contributed substantially to the social structure of rural communities.

9. What Are Some of the Key Factors That Will Influence Agriculture’s Future Organization?

Broadly classified, the factors can be grouped into five important areas.

A. The extent to which individual farmers maintain access to farm land is important. Land has played a critical role in the question of control throughout the history of this country. Some individuals feel that prohibiting corporate ownership of land will prevent further erosion of the control still held by independent farmers. However, in the complex integrated production and marketing system that is emerging today, ownership of all the farm land by individual farmers can no longer guarantee that agriculture will be organized as an independent farmer system.

B. The extent to which individual farmers have access to inputs other than land will have an important bearing on this issue. If independent farmers cannot buy inputs such as fertilizers, machinery, fuel, credit, and information at prices comparable to those paid by large corporations, they will be squeezed out of business. In this area of input prices, individual farmers may find that government regulations such as employee work laws and environmental requirements may put them at a disadvantage.

C. Income tax considerations are critically important to who controls agriculture because investors with a tax advantage have the edge over their competitors. Of course every farmer is eligible to use tax rules for his own benefit, but certain features of our tax code such as treatment of capital gains and graduation of tax rates make investment in farming attractive to high-bracket income taxpayers. Ultimately, then, tax rules have consequences for the production and marketing of agricultural products.

D. The extent to which individual farmers have access to a viable market in
which to sell their products is an important factor to consider. Only certain products in limited quantity can be sold from the farmer directly to the consumer. Independent producers must have access into the marketing system in order to remain in control. Even now it is impossible to market many products without having a contract or agreement with a buyer for the product. Having a viable market requires many things including a rigorous program of product identification (grading), adequate assurance of the financial health of buyers, maintaining a system of intelligence letting producers know the likely conditions of supply and demand, and enforcement of antitrust regulations.

E. The effects of government farm legislation must also be considered. Programs designed to raise farm income or increase the stability of income typically give greater benefit to some farmers than others. Legislation other than the traditional farm income programs could be enacted. Such legislation might restrict corporate entry into farming or place restrictions on farm size. The recent regulation which prevents meat packers from owning, financing or managing a custom feedlot and also prevents a custom feedlot from owning, operating, financing or managing meat packers is an example of legislation which could be enacted.

10. How Can I Get Additional Information on this Topic?

Three good sources of information are available from the Cooperative Extension Service which discuss this issue in more detail and provide information on the steps that might be taken to move in whichever direction you desire.


You can request copies from:
Mailing Room
Cooperative Extension Service
Agricultural Administration Building
Purdue University
West Lafayette, Indiana 47907