Chapter 8

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Policy Conflicts Relating to the Economic Organization of Agriculture[1]

UNLIKE SOME EARLIER PERIODS, the major farm organizations have not presented a united front on major issues in agricultural price policy in recent years. Some of the differences in position on specific policy issues can be traced directly to the different beliefs and values held regarding the economic organization of American agriculture. Therefore, this paper attempts to trace some of the values expressed by spokesmen from these organizations, some of the beliefs apparently held by these groups, and the way in which these are associated with positions on farm policy relating to the present and future economic organization of agriculture.

No single paper can adequately cover all of the numerous issues involved in such policies. Therefore, the discussion is limited to certain elements of policy which are related to economic organization and which seem to be of key importance at the present time or likely to become so in the future. These are the family farm, the free market, vertical integration and the use of direct payments.

It is recognized that the leaders of farm organizations and the resolutions of farm organizations are not necessarily a perfect mirror of the beliefs and values of all farmer-members. Yet these positions must represent beliefs and values to which much of the farmer-membership ascribes (or does not strongly reject) or the organization either would be required to change the statements or lose membership. Moreover, in any case, these are the beliefs and values presented to the policy makers by representatives of farm organizations as representing farmers' opinions. Since policy makers do not have direct access to all farmers on every issue, these opinions carry weight in policy-making circles.

[1]The author received helpful comments from James Bonnen, Glenn Johnson, Alan Schmid, and Lawrence Witt.

SOME VALUES UNDERLYING POLICIES RELATING TO ECONOMIC ORGANIZATION

A number of excellent papers have discussed some of the values important to American agricultural policy, and this paper will only attempt to trace those relevant to the specific issues under discussion.

Certainly one of the basic values shared generally by American farmers is the democratic form of government. Brewster suggests two value judgments are included in the democratic creed: "(1) All men are of equal worth and dignity, and (2) none, however wise or good, is wise enough to have dictatorial power over another."[2]

A second, and closely related series of values relates to economic freedom. These values have been expressed in various ways, but can be generally summed up as the position that proprietors should have the right to determine the rules (choice of output, output levels and resource combinations) of their production units. The pervasiveness of this value in our society supports the drive for "right to work" laws as well as farmers' continued dislike of government interference in the operation of individual farms.[3]

Another concept of substantial importance in agricultural policy is that of "efficiency." Fortunately, those who include it as a desirable value to be attained are not forced to define it, for as economists know, this can be an extremely evasive term. The simplest explanation for the high value placed upon efficiency would be that it is merely a manifestation of our general desire for a higher or improved standard of living. Thus, the resolutions of the American Farm Bureau state: "that efficiency of production and maximum per capita production are primary elements in determining standards of living."[4]

While the desire for better living is indeed strong among American farmers, this does not appear to be sufficient to explain the importance of this value in farm policy. It appears that the concept of efficiency may also be related in the minds of farmers to what Brewster has called the "work ethic." Thus, to engage in honest toil is held to be good and desirable so that a person who produces more or better products with a given amount of effort is held in esteem. Therefore, to be a producer

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[2] John M. Brewster, The Impact of Technical Advance and Migration on Agricultural Society and Policy. Jour. of Farm Econ., Dec., 1959. P. 1171.

[3] It can also be argued that both are the results of economic self-interest on the part of those who oppose outside interference.

[4] Farm Bureau Policies for 1960. P. 6.

is considered desirable in our society and the man who doesn't produce something tangible is regarded less highly.

This suggests that efficiency becomes a value in and of itself, rather than just an instrumental means to achieve some higher value. The deep farmer aversion to the killing of little pigs under the first AAA and the somewhat lesser reaction to the Acreage Reserve Program appears to reflect something more than an all-inclusive concern for motherhood and an objection to money. If, however, farm people place a value on work and efficiency, the unfavorable reaction to these two programs becomes both consistent and understandable.[5]

Closely related to the value of production and efficiency is the judgment that men should receive just compensation for their contribution to society.[6] This is the concept of equity which runs through our agricultural policy and which underlies the concept of parity.

These values appear to play an important role in the policy issues relating to the economic organization of American agriculture. It is doubtful that there is great disagreement on policy issues involving these values.

SOME BELIEFS OF IMPORTANCE

One of the most important beliefs held by many farm people, and by many others including some of our greatest statesmen and philosophers, is that farm people are an important stabilizing force for a democratic form of government.[7] This belief does not extend to include all persons who till the soil, however, but generally includes only freeholders on units large enough to provide a decent income and small enough to be operated primarily by the farm family. Thus, we find among much of our farm population and many nonfarmers the belief that the family farm is a source of vitality to our democracy.

This belief would appear to hinge upon questions of fact, but apart from the study of two communities in California, little has been done to examine the basis for this belief.[8] Since, however,

[5] It is worth noting in this context that the Conservation Reserve Program which reduces production of crops in the name of another value — conservation — has survived and has won more general support.

[6] Brewster, op. cit., calls this commutative justice.

[7] See A. Whitney Griswold, Farming and Democracy. Yale Univ. Press, New Haven. 1952. Even Marx supported this by suggesting that farmers would have to be forceably separated from their desire for capitalistic democracy by the revolution of the workers.

[8] Quoted in the First Interim Report of the Subcommittee on Family Farms, U.S. Government Printing Office, Washington, D.C. March 31, 1956. P. 4ff.

it is something that may be of growing importance in future policy, it would appear to be a useful area of investigation for sociologists and political scientists.

Another group among both the farm and nonfarm population express the belief that the continued existence of democratic government rests upon the absence of government regulation of price levels for farm products. It is not uncommon to find the same individual expressing the value that both the family farm and "free" markets are necessary to the continued existence of our democratic form of government.

Another belief that is generally held by farm people is that the owner-operated farm represents the maximum achievement of individual freedom in modern industrial society. Even to the academic person (a traditional bastion of individual freedom) the proliferation of committees, foundations and projects may cause him to support the belief that farmers represent the largest remaining group with any hope of maintaining some freedom to run their affairs without outside dominance from some individual or another.

Another belief that is widely shared is that the owner-operated family farm is the most efficient form of organization for the production of farm products. This belief persists even though agricultural economists generally find approximately constant returns to scale beyond moderate size farms. This belief in the efficiency of the family farm may be due in part to the crucial role of individual management by an interested manager as an element determining the success or failure of a farm enterprise under the dynamic conditions of an uncertain market economy.

If one looks at the record of history to date, the evidence to support this belief appears strong. Those nations where farms are organized as family farms have clearly increased farm output more rapidly than have those under slavery, peasant and village systems, communal systems, and direct government operation. But, we hope at least, the record of history is not all written at this time. Recently we have observed increasing numbers of very large and apparently successful farms in the United States which are primarily dependent upon hired labor. Thus, there is increasing doubt as to whether the old belief continues to be valid.

A final belief or set of beliefs of importance to our discussion relates to the state of the market in our economic system. On one side there are farm people who believe that the market price is the best determinant of a person's contribution to society. These individuals generally hold that equity is achieved in the market and that interference with market forces, therefore, is unwise or unjust.

On the other side is a substantial group of farmers who believe that market power is distributed unequally between farmers and nonfarmers, and that the greater market power of the nonfarm groups is used to the disadvantage of farm people. Such persons hold that equity for farmers is rarely achieved in the market because market power is so unequally distributed.

FARM POLICY IN THE CURRENT SETTING

One begins to understand the pervasiveness of the family farm as a goal in American agricultural policy when one realizes that up until very recently the family farm represented, in a single package, a method of achieving several of the values relating to economic organization in American agriculture. This attitude regarding the family farm is typified by the statement from the legislative policies and programs of the National Grange for 1958 which said:

> The Grange farm policies and programs are predicated on the belief that family-type farms are the basis for the best and most efficient kind of rural America. They are a part of our heritage of equal opportunity, democratic society, individual respectability, and stable political order.[9]

The National Farmer's Union statement parallels this and says:

> The Farmer's Union believes that, (1) Family farming (a) is the most efficient method of food and fiber production; (b) provides greatest protection for the consumer since family farmers ask only to be allowed to earn parity of income with other groups; (c) is essential to a truly democratic way of life. (2) The small business nature of farming is a strong bulwark against Communism or Fascism, but it leaves the family farmer without protection in the market place.[10]

A statement from the 1949 resolutions of the American Farm Bureau Federation said this:

> Much of our leadership of state, business, school, and church comes from our farm homes. The future of our communities, our states, and the world depends upon how we train this potential leadership.[11]

Thus, we see until recently a widespread belief apparently shared by all of the farm organizations that the family farm represented the most efficient method of organizing American

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[9] P. 3.
[10] Farmer's Union Policy Leaflet No. 10, The Modern Family Farm, p. 3.
[11] P. 1.

agriculture, and moreover, that the family farm makes a significant contribution to political stability, economic freedom, and other values that farm people hold to be desirable.

As long as the belief was widespread that the family farm was the maximum way of attaining a bundle of values, one could expect that any major farm legislation would take the necessary steps to protect and encourage the family farm as the desired form of economic organization in agriculture. To the extent that other groups appeared to have economic power that was used to the disadvantage of the family farm, it generally has been considered desirable to offset this economic power either through increased bargaining power on the part of farmers, or through the use of government. Thus, farmer-cooperatives were given special status to achieve these ends, and direct aids of many kinds were inaugurated to help family farms. For many years there appeared to be no conflict between the policies that would promote the family farm and policies that would promote several other goals desired by American farm people.

As long as there were no apparent economic organizations in American agriculture more efficient than the typical family farm, there was no serious conflict between the goals of economic efficiency and the family farm. But in recent years, economic events have moved swiftly. We have seen increased numbers of large scale farms which appear profitable. In addition, one of the most widely discussed phenomenon in recent years is the spread of vertical integration. Vertical integration appears to result in substantially lower production costs for certain farm commodities. It does, however, have many features which alter substantially the relationships considered to be part of the traditional family farm.

Among other things, vertical integration often removes a major portion of the management decisions from the hands of the operator. Some state that with vertical integration the farm operator becomes a specialized supplier of labor and certain capital. Often the integrator makes the major decisions as to the type of technology to be employed, the timing of production and marketing and the method by which the products are handled in the production and marketing processes. The removal of these traditional management decisions from the individual farm operator seems to be a departure from the ideals of freedom of individual management visualized in the family farm.

To the extent that vertical integration actually results in lower cost and more efficient production of farm commodities, there is sown the seeds of a basic conflict between greater efficiency in the farm economy and the maintenance of the other

values achieved by the family farm. This conflict was recognized by the Grange in its 1958 statement which said:

> The Grange recognizes the trend toward centralization of control or vertical integration in connection with the production, processing, and distribution of a number of agricultural commodities. This gives those in control added economic and competitive strength. There may also be greater over-all efficiency in such integrated handling of commodities.
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> However, if the capital and management for production, marketing, and other farm services are provided by off-the-farm business interests, these interests will ultimately control the agricultural economy for the commodities involved.... We believe that unless farmers do this, the direction and control of agriculture will be lost to business or government.[12]

The National Farmer's Union also has taken a position that vertical integration of American agriculture controlled by non-farm businesses is a serious threat to the many traditions to which the family farm contributes. Therefore, unless farmers themselves can control vertical integration, it represents a serious threat to the various values that the Farmer's Union believe are achieved by the maintenance of family farms. The American Farm Bureau Federation also suggests that vertical integration represents a threat to individual freedom and management.

Another policy area over which there is a great deal of conflict relates to the use of certain types of production payments. This conflict also seems closely related to the desired type of economic organization in American agriculture. The position taken by the Farmer's Union and Grange has been that the use of production payments would be desirable under certain circumstances as a method of maintaining the family farm in American agriculture. On the other hand, the American Farm Bureau Federation has taken a vigorous and specific stand against the use of production payments as a method of carrying out agricultural programs. The Farm Bureau statement says:

> Payment limitations, such as have been applied to other government programs including the agricultural conservation payments program, soil bank, and commodity loans, would place a ceiling on opportunity and level individual farm incomes downward. Inevitably, farm income would be distributed on the basis of the politics of equal shares instead of by the market on the basis of each individual's economic contribution to society.[13]

The Farm Bureau statement also says: "Ultimately, the payment approach also would be a trap for consumers, since it

[12] P. 10.

[13] Op. cit., p. 10.

would encourage inefficiency and thereby result in high real food and fiber cost."[14]

Thus, the Farm Bureau position toward the use of this particular method of implementing farm programs seems to rest largely on the feeling that production payments would be distributed in a way that would reduce efficiency in American agriculture. This feeling would appear to rest upon the assumption that there are economies of scale in agriculture, and upon the value judgment that the market is the most valid determinate of what a man's contribution to society is worth.

On the other side, the National Farmer's Union has held the position that whenever the other programs fail to produce the desired income levels for family-size farms, that the difference be made up by some kind of income deficiency payment. They, however, would limit these payments to family-sized farms and not pay them to larger than family-sized units. Thus, it appears that one of the differences in a major policy issue depends fairly heavily upon differences of opinion regarding (1) the importance of allowing or encouraging large-scale production because of the gains in efficiency, versus (2) the importance of maintenance of a maximum number of somewhat smaller sized units, which are generally termed as family-sized farms.

A third closely related issue is that of the limitation of payments to individual producers under any programs. Recently there have been limitations on the size of payments under the soil-bank programs and limits to price support loans that would be allowed an individual farm operator.

The American Farm Bureau Federation has opposed the placing of any maximums upon the receipt of aid under the various farm programs, either in total or on individual farms. They say:

> A ceiling on individual loans does not remove the basic causes of high program costs. More significantly, it tends to reduce the size of farm units and thus to lower production efficiency.[15]

Thus, implicit in the Farm Bureau statement on both the use of direct payments and the placing of limitations upon the size of loans or other kinds of aid to individual farms under government programs, is the belief that there are substantial and significant economies of scale in our agricultural economy. On the other hand, both the Grange and the National Farmer's Union have supported the limitation of size of payments and/or size of price support loans to individual farmers. They suggest that the

[14] Ibid.
[15] Ibid., p. 11.

large-scale units are not more efficient than are the typical well-managed family farms. In addition, they suggest the subsidization of the large-scale units will increase the difficulties for the family farms, which ought to be preserved because they contribute to the attainment of other values in our society.

The final, and perhaps greatest issue dividing the farm organizations at the present time relates to their belief as to the relative market power of farmers in the market. Presumably, if everyone believed that the competitive economic model was not only desirable as a social norm, but also existed in reality in our modern economic society, they might consider that the incomes generated by the market were an accurate measure of the individual's contribution to society. There is, however, apparently no general agreement among the organizations as to whether or not market power is distributed equally or unequally between farm and nonfarm people.

The Grange statement says:

> The Grange believes that farmers are entitled to bargaining power comparable to that enjoyed by labor and business. Farmers are both.
>
> Through legislation, government has helped develop the bargaining power of organized labor. Other federal laws often enable business to regulate and control production and marketing of its products and services.[16]

This statement carries the suggestion that farmers need stronger bargaining power and if it cannot be achieved otherwise, it would be desirable for government to help farmers achieve and maintain this bargaining power which could be used to enhance their income position.

The National Farmer's Union statement relating to the relative bargaining power of other groups in the society strongly parallels that of the Grange. They say:

> Businessmen utilizing their rights under the Fourteenth Amendment have organized great corporations with limited liability which gives them enormous power in the market place. Members of labor unions have brought about the passage of laws which protect them in their collective bargaining rights. Minimum wages and maximum hours legislation and workmen's compensation laws also were enacted to protect the working people. Unlike businessmen and labor, farmers have not yet been extended the legal authorization and facilities to exercise similar bargaining power. Farmers today find themselves somewhat in the position of labor and business a hundred years ago.[17]

[16] 1960 Summary of Legislative Policies and Programs of the National Grange. P. 9.

[17] National Farmer's Union Official Program for 1960. Pp. 10-11.

It appears then that much of the difference between the farm organizations rests on the evaluation of their leadership and/or their membership as to the relative bargaining power of other major groups in our society vis-a-vis those of farm people. The Farm Bureau position would appear to be that farmers would receive a just compensation in the market place if it were not for the encouragement of excessive supplies by the price support program. On the other hand, two of the major farm organizations appear to represent members who feel very strongly that the farmer's bargaining power in the market place is such that, with out some redress of the difference in power via the use of government action, farmers will not receive an equitable income through the market place.

Inconsistencies would appear in both positions. The Grange and Farmer's Union express concern over the loss of freedom of individual management involved in vertical integration, but are apparently willing to accept a similar restriction by government to gain increased bargaining power. Conversely, the Farm Bureau voices strong opposition to any reduction of freedom of management under government programs to gain bargaining power, but expresses no major concern over the potential loss of management control via vertical integration.

SOME FACTS THAT ARE NEEDED TO RESOLVE CURRENT CONFLICTS IN AGRICULTURAL POLICY

Some of the major issues in farm policy at the present time would appear to hinge around the question of the effects of various governmental and private arrangements to improve income levels in agriculture upon the efficiency with which resources in agriculture are used and upon encouraging or retarding changes in methods of economic organization in agriculture. Does the addition of price stabilizing programs remove the main competitive advantage enjoyed by the family farm? Do certain programs tend to limit farm size below that which would require the fewest resources to produce our food and fiber? What exactly are the management controls exercised under vertical integration? To what extent do the forms of economic organization in the nonfarm economy give nonfarm groups economic power which is used to the disadvantage of farmers? These are questions of fact about which current opinion varies substantially. An improvement in agreement about facts in this area will narrow the policy conflicts but not remove them.

THE POSSIBLE RESOLUTION OF VALUE CONFLICTS

At the present time economic forces and events do not appear promising for a painless resolution of the value conflicts relating to the economic organization of American agriculture. If economists could provide calm assurance that an unregulated (by government or by integrators) farm output would produce equitable farm incomes at approximately the level enjoyed by the nonfarm economy and without a further diminution of the number of family farms, all would be well.

Unfortunately, quite the opposite appears to be the case. Increasingly, informed opinion is growing that the free market will produce incomes even lower than present levels. Moreover, the minimum resource bundle necessary to organize an efficient production unit in agriculture with present technology nearly precludes farm family accumulations of this size in a single operator's lifetime. Thus, the obtaining of outside capital through vertical integration or through corporate organization separating ownership and management become alternative methods of organizing farms. These alternatives, which might achieve the values of efficiency and free markets, would mean the abandonment of the social values believed to be achieved by the family farm or would require their attainment via other means.

On the other hand, abandonment of the value of individual freedom and free markets via the creation of an agricultural public utility will not automatically mean the achievement of the social values that are held to be served by the family farm. There are many reasons for the spread of vertical integration beyond the desire for price stability and the unequal bargaining power of nonfarm marketing agencies. These reasons and the steadily increasing capital requirements in agriculture, may mean the traditional family farm will recede in favor of other types of organization.

This unpleasant dilemma means that the task of the social scientist in farm policy is important. Farm people and policy makers must clearly recognize the value conflicts that they face. The social scientist has a major responsibility to identify these conflicts. Moreover, there should be an exploration of the other goals which farm people might pursue to achieve the values that are held regarding democracy, freedom and efficiency. Ours has not traditionally been a society of static social institutions in the past, nor should we insist that it must be in the future. However, some of our most cherished values are in conflict and existing goals seem incapable of providing a solution. Therefore, investigations as to acceptable methods of social adjustment need to proceed rapidly.

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Discussion

I AM IN AGREEMENT with all major points made by Professor Hathaway in his informative chapter. My discussion is in the nature of a supplement to it.

The major part of his chapter is taken up with a discussion of the differences in the positions of the three general farm organizations relative to the family farm, the free market, vertical integration and the use of direct payments. In a section near the end, Professor Hathaway raises a number of factual questions relating to these issues.

He says, "An improvement in agreement about facts in this area will narrow the policy conflicts but not remove them." I am in full agreement with this statement. If we could get a substantial body of agreed economic facts in these areas I doubt that the remaining conflicts in policies would be very significant.

Thus far in discussing goals and values we have failed to focus on the extent to which group conflicts within our society and within agriculture are based on beliefs without foundation in fact. As I watch the legislative process work from day to day I am chagrined at the great variance between what the opposing groups are saying to each other and the relevant facts.

I hope before this book ends we will have a great deal of discussion about the nature of research and educational programs which would rapidly increase the body of agreed relevant facts in the farm policy area.

We should recognize that for purposes of self-survival and growth, competing organizations of farmers magnify rather than minimize their differences. Except for differences in the geographic distribution in membership, differences in the commodities produced, and differences in the scale of operations of their members, policy differences on the four issues listed by Hathaway would be nominal if the relevant economic facts were understood by farm leaders. One hears repeatedly that we cannot make progress in adopting more desirable farm policies because of conflicts in goals and values among farm and nonfarm groups. In my opinion, a more accurate statement would be that because of mistaken beliefs about the nature of the economic consequences of alternative policies, groups fail to discover their common interests. Most of the group conflicts as we know them today in the farm policy field are the result of mistaken beliefs regarding the effects of existing policies and expected effects of

alternative policies. And we should ask ourselves: Why is this situation so prevalent today?

Why is such a small part of the research and educational resources in agricultural economics devoted to obtaining a better understanding of these policy issues? Why do our brightest graduate students work on the more concrete but less important problems of firm and industry efficiency under static conditions of equilibrium?

Why do our extension services so largely engage in a conspiracy of silence in these areas?

Professor Maddox was correct in calling our attention to the persistence of conflicts of economic interests among groups in our society. Fuller information would not eliminate economic interest conflicts. Dairymen within and outside fluid milk marketing order areas would continue to have conflicts of interest. Northeastern poultrymen and dairymen would continue to have conflicts of interest with the midwestern feed grain producers. Individuals and corporations with money invested in large farming enterprises would continue to have conflicts of interest with family farmers.

But if the magnitude of the conflict of economic interest in any particular policy proposal can be quantified, even roughly, the policy formation and legislative processes can achieve a reasonably equitable compromise or settlement.

> ...it is the ethical outlook — of the legislators, of special interest groups and basically of the citizens — that plays the major role in determining political action in regard to economic problems.... Sharp conflicts of interest are encountered in relation to most social and economic problems.... In a society as large as ours, however, the groups immediately helped or harmed may be only a small part of the total economy. The decision may lie with the disinterested.... Many of those not vitally affected by the measure act largely on the basis of equity or other ethical considerations.[1]

It is not necessary that there be full agreement on all facts relating to specific alternatives for this process to work satisfactorily. Nor is it necessary that all professional agricultural economists be in agreement with respect to a particular issue. If social action is to be purposive and intelligent relative to the issues involved, however, the relevant facts must be isolated and agreed to by a majority of those participating in the settlement of the interest conflict.

It is useful, next, to distinguish between economic interest

[1] Walter W. Wilcox, Social Responsibility in Farm Leadership. Harper & Brothers, New York. 1956. P. 4.

and noneconomic beliefs and valuations. Individuals and groups differ with respect to the importance they attach to specific noneconomic beliefs and valuations such as the valuation of freedom in the enterprise creed sense. In this area economists can contribute to minimizing group conflicts by analyzing the extent to which the economic interest goals conflict with noneconomic beliefs and valuations. The conflict between higher farm income goals and producers' freedom under specific policy proposals can be analyzed in a meaningful way by competent professional agricultural economists.

As the writer sees it the agricultural economist has an opportunity to make a far greater contribution in the area of farm policy goals in the next few years than in most other areas.

First, through research and educational programs he can and should throw more light on which economic beliefs are based on fact and which are mistaken.

Second, he can and should help groups discover their common interests and quantify to the extent possible the magnitude of their conflicts of interest in specific policy proposals.

Third, he can and should analyze the nature of and the extent of the competition and conflict between groups' economic goals and their noneconomic valuations in order that they can more intelligently reweight their valuations and arrive at a consensus with respect to a policy or policies which minimize their conflicts and maximize their aspirations.