A New Generation of Power

A new approach to agribusiness, technology, and U.S. Farm Policy is needed if the public continues its long-standing committment to independent farmers.

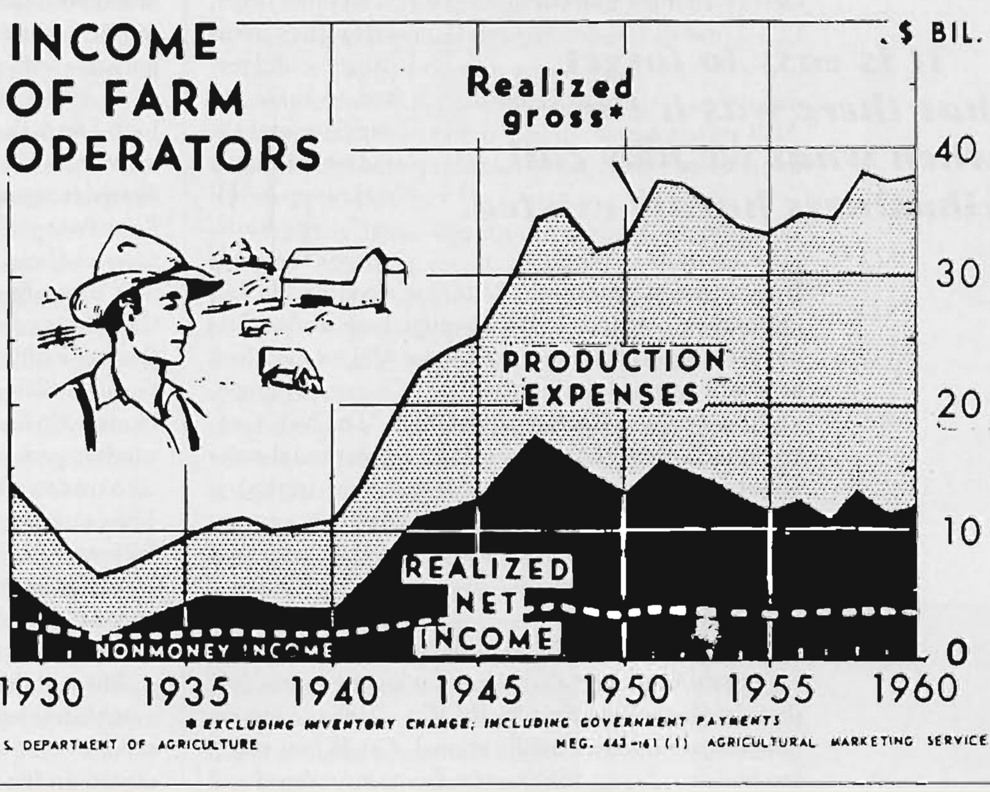
by Richard A. Levins

The summer of 1960 was a big one for John Deere and Company. Amid fireworks and music, the company rolled out its "New Generation of Power" at Deere Day in Dallas. A shiny green four-cylinder tractor, suitably bedecked in Nieman-Marcus diamonds, provided the backdrop as CEO William Hewitt proclaimed "farmers are no longer hicks, and neither are we." Much had changed in the previous 40 years. Back then, the company was locked in a bitter dispute over whether to produce tractors at all, for they didn't seem like anything family farmers would ever buy. Now, Deere was within striking distance of world domination in farm equipment.

A few months later in 1960, another tractor event was drawing considerable attention. Presidential-hopeful John F. Kennedy chose a plowing match in South Dakota to lay out the Democratic answer to the economic mess that had, in his view, been imposed on the nation's family farmers by a Republican administration obsessed with free enterprise. Government programs to enhance domestic and foreign food use would be coupled with government programs to control supply in an all-out effort to bring costly surplus production under control and save the family farm.

The task of selling the new President's farm program to Congress fell to Secretary of Agriculture Orville Freeman. Standing before Congressional committees, the Secretary sometimes showed the graph "Income of Farm Operators" (see Figure 1). From 1930 to 1940, there is a very clear and ordinary relationship between gross farm income and net farm income. As goes one, so goes the other. The years 1950 to 1960 are an entirely different story. Gross farm income was $5.5 billion greater in 1960 than in 1950. Net farm income, however, had *fallen* by $2.4 billion during the same period. (The most recent USDA estimates show that, since 1960, gross farm income has increased by $161 billion, net farm income by 18 percent of that, and government payments are 25 times higher now than in 1960.)

Figure 1: Income of Farm Operators, 1930–1960



Texas-sized Deere Day. William Hewitt and Stanley Marcus introduce the "New Generation" at the Neiman-Marcus store in Dallas on August 30, 1960.

Photo courtesy of the Deere & Company Archives.

Neither Secretary Freeman, nor any of the secretaries who followed him, seem to have been unduly bothered by the numbers in his graph. Liberals have earnestly promoted various "higher product prices" or "welfare payment" solutions, the merits of which have been debated to the exhaustion of all who have had to listen. At other times, such as the current struggle with Freedom to Farm, we have gone more to a free market, "make it up in volume" approach. Perhaps there has been a time in our nation's history when either the liberal or the free market approach might have worked, but neither could possibly work now. To see why, we must look at what happened during the time of Freeman's graph, and at what John Deere so aptly called "The New Generation of Power." That power, I will argue, should never have been measured in terms of horsepower. Instead, it was the economic power of agriculture rapidly concentrating in the hands of people far removed from farmers at Deere Day in Dallas.

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A Brief History of Agribusiness

It is easy to forget that there was a time — roughly that time before the First World War — when what we now call agribusiness hardly existed. Cargill was there, but was considering bankruptcy after some railroad and western irrigation ventures turned sour. No one in farm country had heard of Pioneer Hi-Bred, or the hybrid corn seed that would build it. Monsanto was a small company building on its business in artificial sweeteners. And, as I have already noted, John Deere seemed quite content to stay with steel plows and leave the tractors to the Ford Motor Company or anyone else willing to gamble on a horseless farm economy.

As we all know, things have changed considerably. John Deere has been the world's leader in farm equipment sales since 1963; in 1981, *U.S. News and World Report* recognized the company's CEO in their "Who Runs America" issue. Cargill is now the world's largest privately-held company, several times bigger than the next company on the list. The epitome of global reach, Cargill has sales that were one-fourth as large as all U.S. farms combined, and its pending merger with rival Continental will further increase the company's size and power. Pioneer Hi-Bred grew into the world's largest seed corn company and controlled almost 40 percent of the U.S. seed corn market when it was purchased by DuPont in 1999. The purchase price was more than all Minnesota farmers spent on all of their production costs in that same year. Monsanto has gained worldwide recognition among opponents of biotech and industrial concentration as "the firm they love to hate."

Much of this transformation happened in the decades immediately following World War II. Cargill leveraged U.S. exports, first as surplus food aid, then as commercial exports during the 1970's "fence row to fence row" frenzy, to build upon its 1960 accomplishment of passing the one-billion-dollar mark in sales. Those were also the days in which Pioneer and archrival DeKalb cashed in on farmer acceptance of hybrid seed corn. During the 1970's, Pioneer's sales grew by a factor of five; its profits by a factor of eight. Monsanto's agricultural products division, centered on herbicides, became so profitable that the company eventually moved out of plastics. And John Deere found itself as a kid in the candy shop — when 1950 was charted on Freeman's graph, there were two million more farms than tractors. When 1960 was charted, there were one million more tractors than farms.

Who Built the Technology Treadmill?

The years I am describing are referred to as ones during which U.S. agriculture underwent a "technological revolution." We have all heard that story a thousand times, and the strands of technology, treadmills, surplus production, and too many farmers is the fabric of which all farm policy is woven. Farm policy is not technology policy, however. Technology policy has been left in the hands of increasingly powerful multinational companies.

John Deere's annual report for 1950 proudly proclaimed their advertisements favoring "Americanism" and "Free Enterprise;" the 1963 report pointed out how larger, fewer farms meant more sales of tractors. Monsanto's 1966 annual report noted how U.S. farm policy was shifting from surplus control to increased production, a move that would "tend to swell the demand for farm chemicals." W. G. Broehl matter-of-factly told of how Cargill engineered the change to increased production in his book *Cargill: Going Global.* The goals of those companies — more production, lower farm product prices, and fewer farmers — were in direct conflict with those of farm policy. Farm policy slowly, but surely, devolved into ways of cleaning up the mess, of making the best of a bad situation, and of convincing people that the wreckage lying before them was all for the better.

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As policy economists, we have lagged behind in developing language that would help us formulate realistic solutions in the New Generation of Power. We speak of farm program benefits being "capitalized into land values" without thought that agribusiness may be taking its share, too, or that active farmers own less and less of U.S. farmland. We talk of large farmers doing-in small farmers, with virtually no consideration that powerful agribusiness interests may be doing in both. We speak of technology used by farmers to become more efficient, not by corporations to become more profitable. Volume upon volume of USDA's *Agricultural Statistics* provide painstaking detail on canola yield trends, crude beeswax imports from Zambia, and national guava production levels, but no insight whatsoever into the world of agribusiness. In short, we have language to talk about the farm production sector as if it was the whole of the agricultural sector while we have facts to show that the farm sector is barely five percent of the agricultural sector (Smith).

Put another way, it is no longer enough to describe the technology treadmill and speculate on why farmers ride it. We must also ask who built the treadmill, and why.

Farm Policy Implications

We can, if we so choose, continue to take the hand-wringing approach that farmers, done-in by technology and unstable prices, will always need help — there simply isn't enough money in farming. Or, we can recognize that farming may not be profitable, but the corporations that surround it certainly are. Then we would be forced to address the demon of income distribution. A framework for the income distribution view is provided by Levins (2000b). Here, I will present some of the policy options that stem from that analysis.

We must begin by recognizing that the 1996 Farm Bill, popularly known as "Freedom to Farm," is completely wrongheaded. The farm sector was to be freed from troubling public restrictions and allowed to compete on a "level playing field." The playing field to be leveled was that of trade barriers between farmers in the United States and those in other countries. In other words, if the global farming sector were to become even more competitive. Meanwhile, the multinational processors and input suppliers went on about their business of mergers and acquisitions in an all-out effort to become less competitive. If the government's goal is to strengthen the farm sector, it set out to level the wrong playing field. Competition lowers profits while economic concentration has the opposite effect.

Alternatively, we could pursue anti-trust programs aimed at fostering greater competition in the processing and input supply sectors. The idea here is to ensure that all sectors have equal, and very low, economic power. As difficult as eliminating potential monopoly power in the system may be, the task is small in comparison to that of eliminating the economic power that results from sheer size and scope of operations. On the other hand, we could accept that, for whatever reason, the largest agribusiness corporations must be of such size to achieve maximum efficiency. If so, the possibility of regulating those corporations as public utilities arises. Cochrane (1958) long ago suggested such a plan, but his thinking was oriented toward the farming sector. Here, public regulation of profits and business practices would be directed exclusively toward the processing and input supply sectors. There could be many variations on this theme, including rent controls on farmland.

Still another approach would accept that economic power in the processing and input supply sectors leads to higher-than-expected profits. Rather than trying to eliminate these profits, one would try to increase the economic power of the farming sector. Additional profits to the farming sector would come not from government action, but from collective action by farmers to strategically redistribute profits. One such plan for doing this was developed by the Farmer Summit, a group of Midwestern farmers working together to find ways to better their situation without resorting to massive government intervention. In the Farmer Summit view, profits are plentiful in the food system; the farm income problem arises directly from the farm sector's low economic power.

Revisiting the supply control ideas advanced by Cochrane (1958, 1959) and later placed in historical context by Levins (2000a) might also prove to be interesting. Cochrane's plan would have issued production quotas to all farmers in such a way that supply would be managed to avoid surplus production and resulting low prices. What Cochrane's program also would do, however, was create a barrier to entry to farming: without a production quota, one could not farm. This never-explored consequence could, if administered properly, have substantially increased the power of farmers to bargain with other sectors.

A New Approach

A new approach is needed if the public chooses to continue its long-standing commitment to the independent farmer, one capable of making a decent living, of maintaining adequate numbers to protect natural resources, and of managing the nation's food supply. The farm sector can no longer be viewed as acting independently of wealthy processors and input suppliers. This will require very different policy prescriptions, perhaps along some of the lines I have outlined here. But whether or not these particular suggestions have merit, we must realize that there is a New Generation of Power, of economic power, that poses a great challenge for U.S. food and agriculture policy. ■

■ For More Information

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American Agricultural Economics Association

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