EFFECT OF CHANGES IN MARKET STRUCTURE ON OWNERSHIP PATTERNS OF WEALTH AND ON THE DISTRIBUTION OF INCOMES, RIGHTS AND PRIVILEGES

by Thomas T. Stout

There was once a Professor of Economics in our College of Commerce at Ohio State University who's examination questions caused me to sit and meditate during the first hour of a two-hour examination period. I did this in order to be more assured that during the remaining hour I could write in response to what I thought were the central issues of his questions. The title of this paper which defines my responsibilities here reminds me of one of the good professor's examination questions, and I assure you it has caused me to meditate, and to worry, while other things persistently encroached upon what otherwise would have been time spent in preparation for my presence before you now.

But I have been consoled by three thoughts: (1) My preparatory chore does not prove really to be a matter of exploratory research to substantiate my comments; presumably I may take as given the essential reliability of evidence presented by the Bureau of the Census, the Department of Agriculture, and the previous papers. (2) Second, when I tried to refuse to participate in this program on grounds that other duties would prevent diligent preparation, Gordon Ball assured me that "something speculative" was desired. So I felt less obliged to present 90 percent proof and 10 percent conclusions, which seems to be the standard proportion for presentations to an audience of this kind. (3) Finally, it occurred to me that, since I would be the last man on the program, then perhaps with a little luck there would be no one left to hear my comments anyway.

Those who have preceded me on this program have said what needs to be said to provide opportunity for me to conclude with some of the things I think it all means. Moreover, some of what it all means has already been said with clarity, with eloquence, and with scholarly precision and insight by others on this program, and on other occasions by persons like Bonnen, Hathaway, Paarlberg, and Breimyer. And by

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inference, it has been said by people like Francis Parkman, Bernard DeVoto, Irving Stone, David Lavender, Bruce Catton and Mari Sandoz, and by others still, who include Hamlin Garland, O. E. Rolvaag, Willa Cather, Edith Wharton, Conrad Richter and Harvey Allen -- and Remington -- and Russell -- and Harvey Dunn.

You recognize of course that I am confessing to a certain bias which causes me to respond rather willingly and perhaps enthusiastically to artist-historians, journalist-historians, and contemporary agricultural economists who are intrigued with main themes and central tendencies. I am less concerned on subjects that we have attended to in these sessions, with whatever the quantitative proportions of their distributions may be proved to be by those who are devoted to their measurement. Perhaps this is so because what I have to say doesn't require confidence limits beyond about the 75 percent level and my judgment tells me that my remarks could achieve those limits.

For much of the post-war period, most of us believed that nothing really very spectacular was occurring in agriculture, or at least that whatever startling rates of change we did encounter either would not amount to much or could not be maintained. We were too close to the information. Even information has diminishing marginal utility, and when you sit at the communications crossroads the next little tidbit doesn't excite you too much and gets easily discounted. But the tidbits have been piling up, and while the standard classroom word to cadaver-eyed scholars has been "little opportunity in agriculture", something akin to Tablets from Sinai has been accumulating at the crossroads. I believe that one of the reasons we have gathered here this week is to try, with some trepidation, to discover what the Tablets say. About all we have been able to make out on our own is an exciting word here or an ominous word there -- like OPPORTUNITY and DANGER. Like explorers in an ancient tomb, we find the surroundings somehow threatening, we are curious, even anxious for the next discovery, but a little frightened by what we may find.

In the past, nearly every published prognostication about change in agriculture has proven to have been grossly conservative. For example, in June, 1955, at a time when there were 5.2 million farms in the United States, Fortune Magazine published a major article which assessed the agriculture of 1980. The article speculated that by that date, 25 years later, there would be only 4.2 million farms in the country. But by the time 10 of those 25 years had elapsed, the number of farms already was reduced to 3.2 million. Of course a change in census definition occurred in the interim, but it is true nevertheless that the article forecast an 18 percent reduction in farms on the basis of the old definition. What occurred, based on the
current definition, was a 33 percent reduction in 10 years, with the expected 18 percent reduction occurring in the first five of those twenty-five years.

What else happened during the past ten-year census period? As I recite a few of the developments, recall the reasons why they happened, if you will; your memory-span need by only about three days long. And consider whether it is perhaps legitimate to project the rate of change another ten years, even though the trends of the past five years have moderated the ten-year influence.

The value of all farm products sold has increased 43 percent. The value of products sold per farm has risen 118 percent. The value of land and buildings per farm is up 186 percent; value per acre has climbed 74 percent. Cash grain farms have decreased 25 percent, dairy farms are down 33 percent, poultry farms down 47 percent, and cotton farms down 69 percent. Average farm size has increased 45 percent, and the only farms that increased in number were those of 500 acres or more -- up ten percent. Farms of lesser size decreased between six percent (260-499 acres) and 44 percent (under 100 acres). Farms selling $40,000 or more in products increased 39 percent in the past five years, and those realizing sales of $20-39,999 rose 23 percent. All others decreased drastically.

Generally, these trends have been more moderate for the Central Corn Belt states of Indiana, Illinois and Iowa, with two striking exceptions. Whereas the national increase in farms with sales of $40,000 or more was up 39 percent, this three-state area increased 59 percent. While national averages registered a ten percent increase in farms over 500 acres, these Corn Belt states experienced a 51 percent increase.

Where does this really put modern agriculture today? Well, for one thing, it could be argued that already we have more severe concentration ratios in agriculture today than in most industries with which we enjoy playing concentration-ratio games. Yes, the top four food retailing firms had 20 percent of the retail grocery sales in 1964, and those sales occurred in only 3.6 percent of total retail grocery stores. But also in 1964, the top 3.4 percent of U.S. farms ($60,000 or more in sales) realized what appears to be about 29 percent of total sales. The four largest meat packers did not do as well in 1964, nor did the four largest firms in fluid milk, prepared animal feeds, or bread and related products. Perhaps you feel compelled to remind me that our concerns for concentration stem principally from central decision-making and control, which is conducive to structural power, and that such centralization is absent in agriculture. I think my position would be that technology and pure competition already
have produced the willing maiden of agricultural concentration, and needing only an introduction to a series of skillful suitors she could be quite a prostitute. Moreover, I would submit that in the past ten years the suitors have noted her succulence and have started to call.

I believe we are on the threshold of revolutionary change in agriculture. I mean revolutionary in the literal sense that revolutions leave earlier forms unrecognizable and cause persistence in customary patterns of thought and action to be untenable. I think we are entering upon a period of fundamental re-appraisal for agriculture, a period in which difficult and unprecedented questions will be asked about the proper economic and social role of agriculture, and a period in which changing attitudes, values and social requirements will require the development of radically altered programs to properly realign a mutated agriculture in a mutated social setting.

Another ten years like the last would bring us by 1975 to this: Farm sales will be a 50 billion dollar industry. The average farm will generate $25,000 to $35,000 in sales annually, and this from a farm quite large by present standards. We will have 2.1 million farms, and perhaps as few as one million really commercial farms. Average per acre value of land and buildings will approximate $250, but in the central Corn Belt it will more closely approach $550. Average farm real estate investment in the U.S. will be about $130,000 per farm, but in the central Corn Belt it should be more like $280,000. We could be left with something like 300,000 cash grain farms and as few as 50,000 cotton farms, with possibly no more than 50,000 farms that each produce more than $40,000 in annual sales. To facilitate the rate of change these figures suggest would require nearly 450 farm title transfers every business day of every year during the entire 10-year period.

By 1975 the growth of "large farms" will permit farms of 500 acres or more to account for nearly 20 percent of all farms. But the startling thing is that such farms will be only average in size; projecting present census trends leads to an average size of 510 acres by 1975.

What kind of a distribution in farm size are we moving toward when only 15 to 20 percent of the farms are larger than average and 80 to 85 percent are smaller than average? What kind of investment in agriculture are we contemplating for large farms when average investment in land and buildings will approach $130,000 and average Corn Belt investors will need between a quarter and a third of a million dollars? What kind of investors do we have in mind for that end of the distribution that lies above the average; what kind of entrepreneurial talent?
Really, we already know, don't we? They little resemble the noble son of the soil when they retain Arthur D. Little to tell them they may anticipate an 18 percent after-tax return on equity capital. Or when they employ Battelle Memorial Research Institute to recommend that they begin now in investing $35 million dollars in integrated livestock production in 26 states. Or when Humbel Oil acquires 6,000 acres of citrus land in Florida; or when Campbells completely integrates production for Bounty canned foods and Swanson frozen foods; or when Kearn County Land Company controls J. I. Case; or when Norris Grain expands integration and ownership in Great Plains grain and livestock production. Why should not substantial corporations with investable funds, forced by anti-trust laws toward conglomerate merger, consider investments in an area where opportunities assume growth-industry proportions? (The recent Supreme Court decision on the Proctor and Gamble-Clorox merger could have tremendous implications for future growth patterns in agriculture.)

The conventional wisdom of astute observers in the post-war period has been consistently to pontificate that opportunity for corporate endeavor in agriculture was minimal - this for a variety of "well-founded" reasons, but principal among them was low return on investment. This just is not true, and the fiction certainly is not a restraint to alert management with investable funds at its disposal. Low average return figures in agriculture are misleading for at least two reasons: (1) Such extreme variation surrounds the average that the average reflects no meaningful central tendency, and (2) equity positions appear ridiculously high (83.2 percent of assets in the 1967 Balance Sheet of Agriculture) to the potential entrant who seriously intends to maximize return on equity capital. Those of you here from the Great Plains are familiar with the 40 percent equity perpetual loan arrangements under which business is conducted on aggressive farms and ranches in your states. Yet even this by no means develops the full opportunities that are feasible for maximizing returns to equity.

This kind of activity in the top end of the spectrum is not a final result, but only a next step in a continuing process of acquisition, combination and concentration that agriculture has been undergoing at an accelerating rate ever since social actions were taken to facilitate it, beginning in the last century. I think it can be argued convincingly that solicitous social attitudes toward agriculture have facilitated this development handsomely.

Consider the conventional equilibrium models against which we measure and judge economic performance. Out of our concern for equity arises the social model for perfection in economic equity which we call perfect competition. Of course we do not expect it to exist,
but we find it a handy navigational device, and against it we compare all forms of economic activity that do exist, and we label them all imperfect competition. Imperfect competition ranges from benign, harmless forms which equate with pure competition, onward to most malignant forms considered monopolies, which either are drummed out of the corps or reduced to docile public utilities through legal techniques for economic emasculation.

Still, one must be careful about these social judgments, for we have discovered that perfect equity and great wealth and productivity are incompatible. Perfect equity would prohibit pure profit, yet the search for pure profit is the essential lure that draws capital and management on to great accomplishments.

So in our need for compromise, we restrict our judgment to carefully defined categories of right and wrong concerning how pure profit may be acquired. Certainly, pure profit is realized only by achieving non-tangency between average revenue and total cost curves, and, true, our measures of competitive imperfection hinge upon how much control the firm or industry appears to exercise over one or both of these curves. But how may this be done?

One technique of pure profit acquisition that is particularly distressing is the exploitation of inferior skill, knowledge or power in the market place. We judge this to occur when purely competitive industries are confronted in the market by more powerful counterparts which prove to be oligopsonistic in their purchases. When the oligopsonist exercises superior skill, knowledge or power to artificially depress his cost curve, he is depressing the revenue curve of the supplier.

"This must not be permitted to happen to agriculture!!" Let us stabilize the price or average revenue curve with buttresses from the social model of perfect competition. We can increase product homogeneity with a proper system of grades and standards. We can improve the level and distribution of knowledge among all parties by a functional system of market news and marketing information. We can increase factor mobility by socially subsidized education and financing. We also can facilitate freedom of entry and exit with proper financing, and with Homestead Act rationales and re-training programs. Oh, there seems to be no end to the devices that can be employed, and we may point with pride to our accomplishment when in classrooms we recite the instances wherein agriculture displays the characteristics of pure competition. It is now much safer for farmers to sell their hogs to local markets than it is for them to sell their automobiles to used car dealers.
But what has this done to agriculture, or more specifically to the entrepreneur in agriculture, who responds to the lure of pure profit just as readily as does any entrepreneur anywhere? While we have afforded him protection by stabilizing his average revenue curve in a competitive market we also have, by fixing the price line to both individual buyers and sellers, denied him opportunity to achieve price-cost non-tangency by trying his skill with the price line. No doubt it is true that farmers have lacked the skill and power to do much but lose ground had they been permitted to try, but is it not interesting to note how they no longer cry out vigorously for protection, but for the opportunity to try? While free-for-all withholdings may still not have much more likelihood of success than before, astute groups are attempting more surgical approaches with specialty crops; and licensing ideas and similar plans receive the serious attention of sophisticated planners.

But what is important to the argument here and now is that the opportunity for pure profit to farmers has, over the past half-century been carefully identified by a series of public programs to be a matter of mastering cost curves.

And the best-prepared farmers have taken the most obvious route; that is by acquisition of land to achieve economies of scale.

Not only does continuing inflation assist in following this route, but it is simpler, easier, than working longer and harder, reading industriously to build a stockpile of technological understanding, or thinking hard enough to become the county's leading innovator. Certainly all these desirable entrepreneurial attributes have developed too, but my position is that economies of scale have provided the most obvious route to cost-cutting, and the public programs of the past half-century have helped to point the way.

We have tended generally to regard agricultural people as a group of information-receivers needing only the Gospel of What-and-How to lead them to better lives. Perhaps this has been true, and certainly the evangelical programs that have arisen to help farm people receive the message have been workable, generous and charitable. But I do not believe we ever concerned ourselves too much with the implications of there being outright information-hungers sprinkled among the information-receivers and interested by-standers. No matter whom the information is intended to assist, it is the information-hunters who get it most and use it best. For example, a two percent sample of the mailing list for our monthly extension publication, Economic Information for Ohio Agriculture, discloses that the percentage of farmers who receive it has declined to 40 percent. The other 60 percent is made up of bankers, brokers, investment counselors,
farm equipment dealers, fertilizer companies, manufacturers and processors, county PCA's and SCS offices, and here and there a teacher.

We have set a pack of hounds in motion with our information, and now they go baying down the hot trails in the damp, still night. Some are away in the lead while others cry over lost trails far behind; trails they never found, and never will. Certainly, the system of public information for agriculture can take as much credit for creating misery among the losers as it can for blessings dispensed among the winners. Now with gathering momentum, and joined by hounds from other kennels, the leaders rush down a trail that leads to more concentration, more potentially undesirable characteristics of imperfect competition, and in far more uncomfortable proportions than is true of most industries today.

All that is needed to bring us to the point of re-appraising our mutated agriculture is effective product differentiation, effective restrictions to entry, and some central decision-making authority. Agriculture will have arrived, but its identity will have been lost. Capital requirements, technology, and management demand already are posing substantial barriers to entry. The advent of direct marketing, corporate ownership, integration, contracting, and the brand names of the integrators can provide the central decision-making authority and the product differentiation. It can also erase the familiar identity of agriculture and replace it with the image of a Weyerhauser tree farm.

I do not wish to register with you simply a concern for the mere presence, per se, of corporations in agriculture. What is worth exploring is the implications to the total system of the injection of massive amounts of investable funds and superior management skills into the upper end of the agricultural production spectrum. It is only incidental, though not innocent of portent, that astute corporations happen to possess large quantities of both of these inputs. What is not incidental, and certainly not innocent, is the nature of problems that potentially emerge in terms of the holy-trinity, if you will, of structure, performance and conduct. The problems emerge into a technological society that has other problems also to consider and is more than ever capable itself of central decision-making. It is also a society that has other demanding uses for land, and has a growing tendency to become impatient with a misperforming and militant sector that holds little policy-making authority but controls too much of a basic factor of production to be trusted with it. I think it would be interesting to present for your consideration sometime an argument which might be entitled: "The Circumstantial Evidence Supporting the Feasibility of Socializing Agricultural Land." It is not a possibility that I like to contemplate, but it is one we had
better explore, if for no other reason than that we would wish to devise a better possibility, in order that public control does not pick up the marbles by default.

However justified they may feel their attitude to be, I believe farmers take a very inexpedient tack when they voice militant demands concerning their rights and privileges. However much we may sympathize with their complaints, nor no matter how much their outcries reflect a broader-based unrest and turmoil, what they are asking is dangerous it seems to me. No economic sector has inherent rights; only those that society chooses to give. What they are asking when they plead, for example, for permissive legislation to bargain, license or withhold, is for public recognition that the social model of perfect competition is unwanted and should no longer be employed in their behalf. They ask that legislation make public the record of official denouncement of the model that has been the basis for public attitudes toward agriculture over the past century. One cannot ask this without expecting a certain consistency of action to go with the requested new public attitude. One cannot ask that monopolistic competition, with oligopoly opportunity, be the order of the day without also expecting confrontations with regulatory forces heretofore largely held at bay. One cannot expect continued disproportionate receipt of facilitating programs once one has been granted the opportunities of a structural form capable of taking care of itself.

These considerations provide room for interesting conjecture about the future role of certain facilitating services close to our hearts. Namely, what is the role of the agricultural college, the agricultural experiment station, the agricultural extension service, the Department of Agriculture--if the agriculture it serves wishes to be known as a big boy; independent, capable, self-reliant? It is not satisfactory to say that the same old demands for information will remain. That may be. But the same old excuse for providing it will not remain. It is probably not unreasonable to speculate that perhaps the modal group of agricultural economists who expect to complete careers as agricultural economists in domestic public service has already been trained.

I do not believe this is true, however, of rural sociologists, whose presence in our departments over the years often has done little more for agricultural economists than to constitute occasional assurance that, in the pecking-order of the professional hierarchy, agricultural economists could be worse off. Everett Rogers once referred to agricultural economists and rural sociologists "as close bedfellows without much academic intercourse." I suspect that, not only has the modal occurrence of rural sociologists yet to appear, but that in the future some academic intercourse must occur if we expect our research
offspring to provide meaningful solutions to many of the real problems we are about to encounter with the agricultural economy and its changing social setting.

I would re-emphasize in closing that the changing structure of agriculture and the implications to resource requirements, interregional and international competition, market performance, and investment opportunities or the lack thereof, are not separately identifiable or even the central problems we are about to confront. I believe that in the coming decade we will be participating in social self-examination and appraisal of the multiple bases on which, over the years, we have judged the equity of apportionment of wealth, income, rights and privileges. We are finding many of our precedents less than completely satisfactory. We are entering upon a period when we may regard none of them above scrutiny and re-evaluation. I confess that this frightens me: I am already a programmed social animal somewhat like the Londoner who preferred not to read the New York Times because it got him "all mixed up."

What are the implications for marketing and management research? They arise in the recognition that marketing and management research have tended to make their most substantial contributions in times of stable social attitudes about economic performance; times when policy alternatives were identified and defined with reasonable certainty that these were in fact the relevant alternatives. I expect the research of the coming decade, whether microscopic or magnificent in scope, to predominate in work with strong sociological and policy overtones.

I would encourage agricultural economists to recognize how, more and more, we have reduced our discipline to schools of technicians adept at assessing the performance of this bearing or that drive shaft in quite a spectacular piece of machinery, but often to the detriment of their ability to assess the performance of the total machine. As we enter upon a no-man's land of no rules and new rules in observing the interrelationship of society and economy, let us remember that economics is a discipline in perspective -- one of the very few disciplines in perspective that exists.

When Winston Churchill assumed his duties as Prime Minister during World War II, he had occasion to say: "I have not become the King's first minister in order to preside over the liquidation of the British Empire." Some observers of the passing scene have remarked, however, that that is precisely what Sir Winston did nevertheless, and that perhaps the surgery of subsequent years might restore a view of realism and relevance to the leadership of the Empire. Perhaps we have performed a similar function these past three days. Perhaps we have been presiding over the liquidation of cherished traditions and useless illusions about a changing empire. For the sake of our effectiveness in confronting the problems of the future, let us hope so.