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BUSINESS FARMING AND FARM POLICY IN THE 1980s: FURTHER REFLECTIONS ON THE FARM CRISIS

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Three articles addressing the current U.S. farm crisis appear in C&A nos. 27 and 28. In C&A no. 27, Rex Campbell outlines the demographics of the farm crisis, stressing that younger, mid- and large-sized family farmers are the most affected by the abrupt drop in agricultural commodity prices and associated deflation of farm equity values. He also notes that agribusiness firms are now deeply concerned about the agricultural depression. In prior decades, smaller and in many cases non-commercial farmers sold out to larger, high-tech commercial farmers, so that the protracted decline in farm numbers did not adversely affect farm suppliers. Campbell (1985:5) observes, "the agribusinesses. . accordingly have been more vocal about the plight of farmers." He argues that, with the congruence of asset deflation, demographics, effect on agribusinesses, and media attention, "the current farm crisis has assumed the form of a downward economic spiral."

Durrenberger (1986) amplifies Campbell's contribution by pointing to the ascendancy of capitalist categories in farm operation. "In alliance with the fledgling agricultural colleges," he (1986:16) writes of the previous deflationary period in the 1920s, anti-populist officials and corporations "re-defined family farming as a business and developed business oriented policies to guide farming." Further, American farmers rejected the "old-country self-definition as peasants" and so were willing participants in this definition. Durrenberger (1986:15) asserts that "while behaving as household production units. farmers have defined themselves as businessmen and responded to business oriented policies." He appears to be arguing that this confounding of business vs. actual farm economics is a contributing factor in the current farm crisis.

DeLind (1986), in the same issue of C&A, takes issue with Campbell's discussion of the role of the media in asset deflation. "Bad press" is not the problem, she effectively argues; rather, the lack of in-depth reporting works against widespread understanding of the causes of the crisis and hinders the development of alternatives to the current depression.

Along with Durrenberger I argue here that the imposition and adoption of business practices on and by agriculture is a primary cause of the current depression. However, the dichotomy is not simply, or even primarily, between "peasant" and "business" farming. Rather, the contradictions arise from the political ascendancy of business farmers and their allies who enact government policies that promote a fully capitalized form of

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production in an industry which is peculiarly ill-suited to some aspects of business "standard operating procedures." The "downward economic spiral" is a result of contradictions inherent in a heavily capitalized, specialized, largely unregulated agricultural production system.

Class Composition of Agriculture

At least since the mid-19th century, U.S. farming has been composed of multiple classes, one of which was a fully capitalist class of farmers Federal farm policies and the on-farm organization of production have been shaped by the dynamic interaction of capitalist farmers with other farmers, laborers, and other economic and social sectors. The defeat of the populist movement in the late 19th century and the accompanying alliance of business farmers with ascendent corporate interests cemented the direction of federal policy in the succeeding century.

The notion of the U.S as a nation built on the strength of its yeomanry is a deeply-held myth. The availability of land that could be easily wrested from the Indian peoples gave substance to the myth, despite institutionalized slavery in the South and widespread land speculation by monied people. In pre-tractor eras farm owners relied heavily on hired and tenant labor to clear and farm their land (Schob 1975) Merchants and capitalists invested heavily in farmland, on which they expected to realize a normal rate of profit. Because the frontier remained open, however, nearly every (northern) laborer and tenant could hope to become a landowner, and many did. In 1880, 25 percent of farmers were tenants; by 1935, when the frontier closed, fully 40 percent were tenants (Smith 1980:27).

My research in Union County, Illinois, (Adams 1986, 1987) indicates that the capitalist farmers were central in organizing producer cooperatives in the late 19th century. While they displayed a strong anti-monopoly position, they generally spoke as craftsmen (e.g., agriculturalists and mechanics societies) or as small capitalists in opposition to the plutocrats, bankers, and trusts (see also Scott 1960) Because they were deeply involved in the agricultural market, and because land has always been treated as a commodity in the United States, the great issues of the populist movement revolved around the monetary and distribution systems

Cooperatives appealed both to capitalist farmers and to those with a more radical agrarian vision. Capitalist farmers saw cooperative businesses (organized as joint stock companies) as an effective means to combine to compete more effectively with other business combinations. Radicals saw them as creating the basis for a "cooperative commonwealth" that would replace capitalist relations with cooperative ones Similarly, Macune's sub-treasury plan appealed both to capitalist farmers who wanted more power in the economic marketplace and to radicals who wanted to reconstruct the economy on an agrarian basis (Barnes 1984)

The Construction of Business Agriculture

During the late 19th century, the corporation became ascendent economically, politically, and ideologically (Trachtenberg 1982) In the harsh anti-Red environment of the turn of the century, it is not surprising that the majority of farmers, capitalist or not, adopted a capitalist framework to conceptualize their situation. Durrenberger points to the final gasp of agrarian radicalism in the Farmers Union which, with the Non-Partisan League, eventually joined with labor in Farmer-Labor parties in the northern midwest As Durrenberger stresses, these agrarian radicals were only tenuously linked, either in practice or ideology, to the growing labor movement. They were, in an era of industrial ascendancy, unable to articulate a program or make strong alliances to promote an alternative form of organization.

The alliance that prevailed was that between business farmers, chambers of commerce, Land Grant colleges, the U.S. Department of Agriculture, and other business-dominated groups. This assured that business farming would be the "approved" agriculture in the United States. After 1921, when agriculture slid into a prolonged depression, solutions would be couched in business terminology (e.g., McCune 1943; Fite 1981).

Government programs were, therefore, constructed to aid farming as a business. In the great struggles of the late 19th century populist movements, the principle that government should regulate business in order to create equity was established. In the 1920s, under prodding from the Farm Bloc, these protections were extended. The Capper-Volstead Act exempted farmers from anti-trust laws to compensate for their weak position as atomized producers in an increasingly monopolistic economic environment, and special credit institutions were created. However, not until the New Deal did government embrace the principle of active intervention to make commercial farming viable.

During the Depression the principles of production controls, price supports, "deficiency" or "parity" payments, and conservation subsidies were instituted. These programs, which were vital to the survival of commercial producers, were of little if any help to the largely self- sufficing majority of farmers, and they tended to work against tenants (Fite 1981:61). The majority of "peasant" farmers represented "excess capacity" in the new economic wisdom. In the 1960s, public policy explicitly determined that farmers' national net income should not rise, in order to maintain low food costs for urban workers. Therefore, if farmers' standards of living were to rise, there must be fewer farmers. The notion of "excess capacity" combined with the political requirement to keep the lid on net farm income, along with a commitment to a degree of social equity, gave rise to public policy of retraining and relocating ruined farmers from agriculture to industry (Tweeten 1970, Hadwiger and Talbot 1965, Committee for Economic Development 1962). These programs were viable at the time because the larger economy was expanding rapidly and could absorb the displaced farmers.

New Deal and Post-World War II government programs included capitalizing the Farm Credit System and the Farmers' Home Administration, enacting capital gains (and later investment tax credit) provisions in the tax code to promote capital investment in agriculture, and establishing the Rural Electric Administration and other programs to develop the rural infrastructure. They also served to transform farms from "household production units" (Durrenberger 1986:15) into "petty commodity producers" (Friedmann 1980).

Prior to the past few decades, the farm and household were, to a considerable extent, self-provisioning. Although most farmers sold some products on the market, and many sold their labor seasonally, and all purchased significant amounts for household and farm, most farmers could retreat into subsistence if necessary. In this system, farm and household had a symbiotic, if structurally unequal, relationship. The household provided and sustained labor for the farm--it was warehouse, workshop, dormitory, mess hall, laundry and nursery. Although women's produce frequently entered the market--eggs, poultry, cream, and other goods--they rarely provided enough return to expand operations; rather, they relieved the farm side of the operation of expenses associated with reproducing and sustaining the labor force (Adams 1984, Fink 1986) The farm side of the operation, in contrast, potentially provided a surplus with which capital investments (in land, equipment, buildings) could be made. At the same time, considerable amounts of labor were turned to sustaining the operation. Draft animals and livestock were bred and maintained, on-farm materials were processed to construct buildings and fences, and so forth.

The development of U.S agriculture in the past half-century has involved the progressive replacement of all farm-produced inputs by industrially produced inputs--the replacement of labor with capital. While this is an inherent tendency of capitalist development, it was spurred by government policies that promoted such development even where it was "blocked" (e.g., Mann and Dickinson 1978) in order to boost the productivity of the overall national economy (Tweeten 1970). In the process, the household's role in the production process has been virtually eliminated, as labor requirements and self-provisioning have declined.

Contradictions in Business Agriculture

These processes have generated their own contradictions. Farms have unusually high fixed costs, in the form of long-term debt for land and intermediate debt for equipment which, because of the seasonal nature of agriculture, is used for relatively brief periods of time As farms have enlarged and technified, their debt load has grown apace--from 91 percent of farm income in 1950 to an estimated 987 percent in 1985 (Lins 1986:fig. 4). Farm debt as a proportion of equity reflects the same growth (Campbell 1985). It should be noted that the sharp rise in farm debt is due in part to U.S. fiscal and monetary policies, which promoted inflation during the 1970s and then abruptly reined it in, with skyrocketing interest rates, in the early 1980s (Adams 1986).

Further, rising production costs have greatly increased the fragility of agriculture. The high ratio of production expenses to gross farm earnings makes farms extremely vulnerable to minor commodity price fluctuations. As Lins (1986) explains, "At a gross ratio of 70 percent, a 10 percent reduction in gross income will lead to a 33.3 percent reduction in net income. In contrast, at a gross ratio of 90 percent, a 10 percent reduction in gross income will lead to a 100 percent reduction in net income. Therefore, a 10 percent change in gross income due to poor yields or lower commodity prices has a much more deleterious effect on net farm income today than it did back in 1960."

In the absence of really effective price supports and supply controls, farmers must, therefore, strive for maximum production to buffer themselves against income declines in order to pay their debts. This then leads to increased production and further declines in the unit price of farm commodities.

Further, lower fixed costs, more rapid capital turn-over, and tax benefits have encouraged the industrialization, and investor ownership, of livestock (Strange and Hassebrook 1981; Marion 1986). This has forced grain farmers into increasingly specialized production patterns, as they are less and less able to compete with feedlot and confinement operations. That is, the most economically fragile and risky parts of agricultural production have been, de facto, left to family-sized farmers.

The international economy and U.S. policies regarding it further complicate the situation of American farmers. On the one hand, the strength of the U.S. dollar in the early and mid-1980s discouraged purchase of U.S. commodities. On the other, Third World countries accounted for much of the massive increase in grain exports in the 1970s, on which the agricultural boom was nourished (some would say engorged). They now are under severe belt-tightening regimes as they also attempt to pay back enormous debts they took on during the last decades. Not only have their imports of U.S. food and feed grains declined, they have become increasingly tough competitors with the United States as they attempt to use their food resources to raise foreign exchange to pay these debts (Cook and Sechler 1985; Harl 1986).

The concentration of debt among younger farmers is a symptom of the U.S. system of land tenure, in which each generation must recapitalize the farm operation through purchase of land and equipment. Further, rising commodity prices (either through the market or through government supports) are capitalized into the value of the land. Established or retiring farmers, therefore, reap the benefits of current prices while entering farmers are saddled with debts that cannot be paid out of current earnings. U.S. land tenure is predicated on constantly increasing values for agricultural products and is ill-suited to deal with general deflation.

Conclusions

The U.S. government, with the active participation of most commercial farmers, has promoted the development of a highly technified agriculture which operates using "standard operating procedures" established for capitalist businesses. Government policy has also been directed to ameliorating the consequences of these policies on small and non-commercial farmers by providing income supports, retraining, and assistance in relocating to find industrial jobs. This policy has been successful, despite repeated shake-outs of smaller farmers, because of an expanding industrial economy. As agriculture faces the first serious depression since the 1920s, farmers are faced with a relatively stagnant industrial economy, a burgeoning federal deficit which makes large social investments improbable, and a depressed international market.

At the same time, virtually all farmers have become completely integrated into the dominant economic system and have abandoned virtually all self-provisioning aspects of their operations, while overwhelming debt loads prevent them from re-establishing a self-sufficing form of agriculture, should they wish to. It can be argued that agriculture must industrialize if those who work in it are to gain a return comparable to that earned in other sectors. Attempts to retain the owner-operator form of farming are therefore archaic, and agriculture must continue to move toward the corporate form of organization.

On the other hand, agrarian values run deep and research such as Goldschmidt's (1945) study of the social and economic impoverishment associated with agribusiness dominance of rural communities is used to argue for government policies designed to support a diversified, relatively small-scale family-ownership form of agriculture. This is the path more favored by the continental European Community and by Japan.

In 1985 and 1986, I worked with a rural advocacy group that was actively engaged in developing and promoting farm policies that would strengthen family farming. I have observed that the direction of U.S. farm policy is being developed piecemeal. The political field is enormously complicated. As Campbell noted, agribusinesses are more involved than ever. So are the giant grain traders, along with brokers on the Chicago Board of Trade. The major commodity groups aggressively promote policies which will benefit their particular commodity, often at the expense of another commodity. Major lending institutions work for different forms of debt relief to protect their solvency, while farmers try to shape these programs so they, and not just the lender, will benefit. Since agriculture has provided a major proportion of U.S. foreign exchange, as the international debt has increased those involved in international trade and industrial policy have taken an active interest in shaping farm policy.

Two major positions have emerged on the central issues of surplus production and commodity prices: Most major farm organizations and a new breed of rural advocacy groups are promoting a program of strong supply controls with a high loan rate, targeted to benefit family-sized farmers and to promote sustainable agriculture. The Farm Bureau and most commodity organizations, along with other business interests, are promoting a "free market" approach with emergency income supports.

Finally, the agricultural crisis is part of a deepening rural depression. In the 1980s, rural areas have lost nearly onefourth of their federal dollars, many industries have left low-wage rural areas for Third World countries, and their major industry, agriculture, has lost approximately half of its previous earning power (U.S. Senate 1986) Representatives of local government are increasingly active players in the shaping of government farm policy

Unlike the late 1800s, when agriculture was in crisis but still carried a vision of a society based on agrarian principles, or the 1920s when commercial farmers hammered out a program to promote "equality for agriculture," no clear vision has emerged to guide U.S. agricultural policy into the next century. The question is not one of peasant vs. commercial, but what form of commercial agriculture will the United States choose to create?

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READER'S COLUMN

The following commentaries were organized to stimulate discussion of the U.S. farm crisis, in response to Jane Adam's article in this issue and to recent C&A articles by Rex Campbell, Laura B. DeLind and Paul E. Durrenberger. We thank Frederick H. Buttel, Peggy F Barlett and Susan Carol Rogers for their rapid responses and invite other C&A readers to join the debate by sending additional articles and comments on the topic.

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POLITICAL ECONOMY OF AND IN THE FARM CRISIS

The past decade has witnessed a transformation of the analytical frameworks of