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Peter Hosch

University of Northern Iowa

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A New Era in American Agriculture

Peter Hosch

ABSTRACT: The implications of the 1996 Freedom to Farm Bill go far beyond free market agriculture. By moving away from past farm policy and lifting subsidy payments, America's small farmers will be forced out of business. This should have happened gradually over the years. With current agricultural technology and the unique structure of the agriculture industry, the phasing out of the small farmer will be rapid. Current trends in agribusiness consolidation also threaten the rural businesses that have traditionally supported the small farmers and consumer choice in the marketplace.

I. Introduction

Uncle Sam or Farmer Sam? Since 1933 the U.S. government has been down on the farm. The commodity raised was the American farmer. The feed came in the form of price supports and subsidies. Then in April of 1996, the time came to harvest; old Arkansas Billy Bob Clinton put on his John Deere hat, hopped in his Ford pickup truck and hauled them farmers to the slaughterhouse.

The 1996 Federal Agricultural Improvements Act, more commonly called the Freedom to Farm Act, is causing the rapid extinction of America's small farmer. Agricultural subsidies were put in place during the Depression so farmers would have an incentive to continue supplying the domestic population with commodities. These subsidies remained in place long after their practicality expired. These prolonged subsidy payments allowed small farming to exist far longer than it would have under a free market system. The extensive concentration in the farm input supply market and the output demand market, coupled with agricultural technologies that have long given farmers the ability to produce commodities at levels that far exceed domestic demand, insured that this Act would have devastating consequences.

The goal of the Freedom to Farm Act was to expand exports of U.S. agricultural products. This increase in demand was expected to be so enormous that government-imposed production limits (in place to hold farmers below their production capacity in an attempt to hold prices above break-even levels) were lifted. Idle land was put into production and farmers were encouraged to maximize production. Increased outlays

for inputs made already highly leveraged farmers even more reliant on high commodity prices. The problem is that the enormous foreign demand has not materialized. Consequently, excess supply has been a factor in the current low commodity prices. Farmers can no longer cover their input costs and are forced to sell their farms.

The loss of small farms will affect the average consumer, even though food prices have not yet increased. Free market economics means that the markets must determine prices. The Act gives farmers the freedom to plant what they want based on market forces [Budiansky, 1996, par. 6]. They have the ability to change production to meet market demand and attempt to maximize profits by shifting resources to commodities with increasing consumer demand. However, granting farmers production flexibility has not necessarily increased profits. Farmers are not generating revenues from increases in consumer food expenditures. "The percentage of food expenditures that farmers receive has dropped every year for the past 30 years, down to 23 percent in 1996" [Muller, par. 6].

Russell Lamb, the Chief Economist at the Kansas City Federal Reserve Bank, feels that increased supply has been a contributing factor in farm commodity price declines [1999, par.14]. Agricultural products are necessities so demand is income inelastic, and there are no good substitutes for food so demand is also price inelastic.

A Global Demand for Food Products; this concept may be difficult to measure, but it is real and highly inelastic. It is highly inelastic because, the stomach of each member of the world population is highly inelastic. The human stomach craves roughly the same amounts of the same kinds of foods day after day [Cochrane, 1999, par. 21].

Given the inelastic demand curve for food, the recent increase in supply has caused prices farmers receive for their commodities to fall drastically. Firms that control the production inputs and the processing of the food are the beneficiaries of this rocky relationship.

These two sectors have been steadily gaining size and market power through vertical integration. The end of small farming will lead to oligopolistic control of the food supply [Heffernan, 1999, par. 15]. The vertically integrated agribusiness mega-powers can snatch up the last 20

percent of the pie when farmers are out of the way.

Along with having control of the food supply, agribusiness will bring an end to small town America. Large agribusiness has no need for the middleman in the transactions between the supplier of the inputs and the farmer, or between the farmer and the processor, because they will own all the pieces. Even if the agribusiness has to look outside the organization for inputs or services, they will have the market power to influence prices and/or buy in mass quantity, both of which are things the small community businesses can't offer.

As farm families have disappeared, so have the support for small towns and the services they provided—health and education services, shopping and repair services. In many farming areas neighborhood activities have simply disappeared with the people [Cochrane, 1999, par. 12].

II. Past Farm Policy

The goal of farm policy has historically been to keep consumer food prices low while still allowing farmers to earn a reasonable living [Cochrane, 1999, par. 2]. The primary method was price supports. The government first decided upon target prices that would achieve the overall policy goals. The strategy was then to estimate demand for program commodities. Most people can't decide whether to get the big or the small box of cereal at the supermarket. Trying to estimate the quantity of a commodity needed to satisfy the demand for the entire U.S. for a whole year was nearly impossible. And this estimate had to be done for several commodities, not just one. To match these demand estimates farmers had to try and control supply. To do this, the government had farmers leave a percentage of their land idle so as to lower total output. In return farmers received set-aside payments. If supply exceeded demand and prices fell below the target, farmers would receive deficiency payments to narrow the gap between the market value of output and the targeted value of output [Blakely, 1996, par. 18]. The estimates were changed each year, requiring an annual change in production requirements. With constant variation in production, farmers had to adopt technologies that allowed them to meet or exceed full production in case of low government restrictions in any given year.

Farm programs did not help sustain farm income or small farming as a way of life. The programs provided income based on the overall farm size and total output. Larger farmers received larger government payments. This gave them the financial resources to purchase more land, often from the smaller farmer. This created a continuous trend of increasing farm size and government payments [Cochrane, 1999, par. 9]. The goal of low food prices was achieved, but the goal of a farmer earning a reasonable living was not. Government payments were not going to the individuals who needed them the most. In order to stay afloat the small farmer needed payments that were based on net income, essentially a form of income redistribution.

Farm policy has doomed the small farmer from the beginning. These traditional practices have been in place since FDR was in office [The Economist, 1997, par. 2]. During the Great Depression programs were put in place so that farmers would have an incentive to produce. Farmers were not covering costs of production so they had no reason to produce beyond their own personal needs. All industries were suffering, but government intervened in agriculture because food is a necessity. These programs gave farmers the income support needed in order for them to produce [Budiansky, 1996, par. 3]. Essentially these programs were started to feed the domestic population, not to save the farmer.

Because food is a necessity, this move away from a free market system during the Depression was justified. But the prolonged market interference by government has been destructive. The price support programs have stifled the natural progression of business. This progression is for the large to force out the small by obtaining economies of scale. The government held on to these policies long enough for the suppliers of inputs and the demanders of output to easily and quickly complete this progression.

There is a continuing concentration of ownership and control of the food system. These structural changes are so strong that they often undermine the desired and expected outcomes of much of the agricultural policy developed over the past couple of decades [Heffernan, 1999, par. 1].

The result is that farmers are caught between fully developed industries that have a strong market presence and, to a great extent, have achieved

economies of scale. If market interference had stopped shortly after the depression farmers would have been on an even playing field with the input suppliers and output demanders. Farmers would have had the opportunity to adapt while they still had an opportunity to influence the market. Farmers could have formed cooperatives as they are trying to do today. Present cooperative development is too late because agribusiness is too large. The cooperatives that do make it, with rare exceptions like Farmland, are often bought out by large agribusiness almost as an entire package. If price supports were lifted when their usefulness had expired, these cooperatives would have had a chance in a developing market and at least would have given the farmer some independence. But continual market interference was deemed necessary all the way into the 90's.

The policies have prolonged the phasing out of the small farmer by slowly widening the gap between the small and large farmer, and the gap between the large farmer and their inputs/output market. With commodity prices at all time highs in 1996, government thought it was time for a policy change [The Economist, 1997, par.6]. Were these changes a move in the right direction or a catalyst for the rapid destruction of rural America?

III. Agriculture: A Unique Industry

Financial stability for small farmers is nearly impossible. Agriculture is one of the few industries in which the input prices are steadily rising and output prices are not. Using 1990-92 as the base year, prices received for commodities by farmers in December of 1998 were 98 percent of the base. Prices in January of 1999 were 97 percent of the base, 92 percent in December of 1999, and 90 percent in January of 2000. To make this picture even worse, prices paid for inputs were 114 percent of the base in December of 1998, January of 1999 they were 115 percent of the base, 118 percent of the base in December, and 118 percent in January of 2000 [National Agricultural Statistics Service, 2000, Pr1(1-00)].

Farming input prices should rise at a rate above inflation if the inputs embody innovations that increase productivity. Demand for these innovative inputs will be strong and prices will rise. This is possible because the supply curve for agricultural production is inelastic, causing the demand for innovative inputs to be inelastic. In other words, because the quantity produced by farmers fluctuates very little relative to the

prices they receive for their commodities, the quantity of inputs needed to produce those commodities fluctuates little relative to the input price. Thus the suppliers of inputs can charge high prices and see only a slight decline in the quantity demanded.

When costs of production increase and the prices producers receive for their products decrease, the farmers' bottom line will suffer. Unless this trend changes, farmers will not be able to stay in business.

If the demand for inputs is inelastic, why don't commodity prices rise as input prices rise? Farming quite closely resembles perfect competition in that the output, with respect to a given commodity, is nearly homogeneous throughout the industry. The industry is made up of many producers. The producers operate at full capacity (after the price support programs were discarded) where prices received per unit equal total cost of production per unit. When input costs increase and prices received for the output are less than the production costs, firms should exit and the supply curve for the output should shift left. This leftward shift in the supply curve should cause prices to rise and once again equal total costs of production per unit. This has not happened in agriculture because there has been no decrease in supply when farmers exit. Larger farmers or new corporate entrants absorb their capacity (land), and supply remains constant, or even increases because of economies of scale.

The industry structure of agriculture, coupled with inelastic demand, causes output to "oscillate explosively" [Matsumoto, 1998, par. 7]. This tendency for both supply and demand to be inelastic, should lead to large price fluctuations if there is slight variation in either. This does not happen in agriculture, because farmers' output is not directly demanded by the end-consumer. It is demanded by food processors that have an oligopoly or monopoly power of the initial purchase of farm output. "We liken the food system to an hour glass in which farm commodities produced by thousands of farmers must pass through the narrow part of the glass that is analogous to the few firms that control the processing of commodities before the food is distributed to millions of people in this and other countries" [Heffernan, 1999, par. 4]. The majority of the benefit from increased demand is realized further along in the processing of food.

On the other side, decreases in supply are due to bad weather, war, or other adverse conditions. Whatever the cause, decreased supply is not by choice and higher prices that are received will not increase the income of all farmers. Only areas that are not affected by the adverse condition may

see increases in income. Decreases in demand lead to lower commodity prices and, because of the inelastic supply, only slightly less will be purchased from farmers. Supply increases due to good weather, new technologies, or the lifting of government controls should lead to lower prices for farm output. Prices of finished products are historically sticky downward and with the oligopolistic power of the food processor there is very little fluctuation in consumer prices. The processors, not the consumers, realize the benefits of the lower commodity prices.

The farmer and the consumer are caught in a market where they have little opportunity to benefit. The inputs suppliers and output processors are able to achieve profits almost regardless of the producers' current position. With power shifting to the input suppliers and output processors, farmers and consumers may be in for hard times in the future.

IV. Agriculture and Technology

The trend in farming has been toward fewer and larger farms. Technology is one of the most significant factors reducing the number of American farmers. New technologies give farmers the ability to become more productive. Greater productivity in perfect competition leads to an increase in supply. With inelastic demand, prices often fall relative to inflation.

Because of these new technologies, there is no longer a need for millions of farmers. The total number of farms in America dropped from 6.5 million in 1935 to 2.05 million in 1997, and is still falling. Even more astonishing is that of those 2.05 million, 1.3 million are residential or retirement farms producing only about 9 percent of total national farm product (TNFP). There are 163,000 large farms remaining that produce the vast majority, 61 percent, of the TNFP. The remaining 575,000 farms are small to medium sized (the traditional family farm) and produce only 30 percent of TNFP [Cochrane, 1999, par. 7-8]. Millions of farms are no longer needed to meet domestic and foreign demand. "Increasingly we hear about the need for only 20,000 to 30,000 farms in the United States to produce for the global food system" [Heffernan, 1999, par. 50]. Using 1992 as a base year, total agricultural production in 1948 was 45 percent of the base. Total output per unit of farm labor was 13 percent of the base. Both total agricultural production and total output per unit of farm labor were 106 percent of the base in 1996 [Economic Report of the President,

2000, 418]. The obvious reason for these increases is technology. Biotechnology and chemistry have augmented much of the skill required for farming. Seeds are available that produce higher yields per acre. There is a spray or fertilizer to cure almost every problem a farmer could face in a field. New livestock feeds lead to increased rate of gain and better overall feed efficiency. The list of industry innovations is endless.

"In the 1930's America started what later became known as the green revolution: the widespread breeding of plants for higher yields and pest resistance, and the breeding of animals for better feed-conversion efficiency. These broad scientific applications of genetics helped triple the food yields from the world's existing cropland. Combined with irrigation, chemical fertilizers, and pesticides, the green revolution has made it possible to feed twice as many people and to raise the calories per person in the Third World by more than one-third—without taking significantly more land from nature. [Avery, 1998, par. 38]

The technology that is phasing out the farmer is not solely chemical and biological. New machinery has made labor less important as a production input. Machinery does what was once done by hand. The tractor replaced the horse; soon the tractor will replace the farmer. These new technologies are amazing but they come at a high cost that is not practical for the small farmer who cannot utilize the full capabilities of these machines. The four-row planter and two-row picker are perfect for a few acres, but when your neighbor has a ten-row planter and combine he has purchased the capital to achieve economies of scale.

Much of the new mechanical technology was not size neutral—large tractor hook-ups required large acreages over which to spread the huge costs of such hook-ups and thereby gain economic efficiency from adopting them. The adoption of great machines, at huge costs, pushed the adopter in the direction of acquiring more land; and where could he get it? From his smaller neighbors, of course. So another small farmer went out of business to satisfy the needs of a great, new machine [Cochrane, 1999, par. 9].

Farming brought industry to many agricultural communities all over the U.S. Now industry is forcing the farmer out by giving them the tools to become too productive and efficient for their market. The farmer must accept new technologies or competing in the rapidly changing farm environment is impossible. A good example of this can be seen in the hog industry. It was estimated that the large modern hog operations had unit costs that were \$3-\$5/hundred weight below the traditional small hog farmer [Hennessy, 1996, par. 13]. With profit margins slim for all commodities, a \$3 to \$5 difference in unit costs can make the difference between profit and loss. Similar trends are seen in crop production. According to the National Family Farm Coalition, 1998 corn prices averaged \$2.15, wheat \$2.90, and soybeans \$5.35. Their estimated costs of production per bushel were \$3.50, \$4.15, and \$6.56 respectively [National Family Farm Coalition, par. 11]. Farmers are left with two choices: get big or get out. Getting out means giving up, and finding another way to make a living. Getting big may not be the ultimate answer either. "This need for ever-new capital together with ever-increasing returns to size means that those producers who remain in the business will probably require outside capital funding" [Hennessy, 1996, par. 13]. The problem of the overextended farmer will continue. At some point, the risks for banks will be too large and farmers will have to turn to other sources for funds. Farmers will have nowhere to turn except their input supplying and output demanding oppressors. This money will come at the cost of operation independence.

...with major management decisions made by a small core of firm executives, there is little room left in the global food system for independent farmers. The experts, even the leaders of cooperatives, are telling farmers they must give up their independence and join an alliance [Heffernan, 1999, par. 47].

This independence is one of the major reasons individuals become farmers. "The crop farmer will be paid on a piece basis just like the livestock grower" [Heffernan, 1999, par. 49]. When it is lost, the farmer essentially becomes a worker with bad hours and a high risk for insolvency.

V. The Freedom to Farm Act

The Freedom to Farm Act moved away from historical farm policy. Price supports were replaced with a fixed, declining transfer payment from 1997 to 2002 totaling \$30 billion [The Economist, 1997, par 4]. With no price supports there is no need to control supply. Farmers dropped set aside programs all together. The remaining payments are based on 85 percent of a farmer's previous program acreage, regardless of market conditions [Blakely, 1996, par. 19]. The Act also outlines various efforts by government to tap foreign markets for agricultural products. Maureen Kilkenny, an Iowa State University economist says, "Farmers who can't produce at prevailing prices will sell out to larger operations and the Freedom to Farm Act will accelerate the trend toward fewer and bigger farms" [quoted in Blakely, 1996, par 36].

For years government has tried to protect farmers from being pushed out of the market. Then with the stroke of a pen, this protection was gone and small farmers were left on their own. Without the opportunity to adapt to markets in the past, they have little chance today.

The policy has major faults. America's market for agricultural commodities is saturated, so the only alternative is to look to foreign markets, a concern the act addresses. But most other countries have farmers of their own. Even if agricultural trade agreements are reached our prices still have to be competitive with those of other countries. Yet this foreign market is the small farmer's only hope. The effects of free markets in agriculture have been studied and the projected results were not favorable. Prior to the signing of the 1985 Farm Bill, a study by William Galston estimated that a free market policy (no price supports) would cause farm commodity prices to fall 9 percent from 1986-89. That would reduce net farm income by 25 percent. A study by Stanley Johnson estimated free market policy would cause basic commodity prices to fall 15-20 percent and income 30 percent from 1986-90. A similar analysis in 1995 estimated that decreasing payments to producers by \$6.1 billion annually would cause net farm income to fall by \$6.9 billion annually or 16 percent from 1996-00 [Gardner, 1996, par. 27]. These studies suggest that commodity prices would actually fall with a free market system. Why?

"Lawmakers feared that the sudden elimination of the programs might undercut farmland values and ignite a new round of farm financial

problems” [Drabenstott, 1997, par. 29]. That should have been a little further down on the list of concerns. The lifting of set aside programs causes a supply shock. Set aside programs left approximately 12 million acres unplanted, compared to 190 million planted [Budiansky, 1996, par. 9]. This results in a 6.8 percent increase in production capacity. Although total farm production figures are not yet available for after 1996, this increased production capacity should translate into a similar increase in output. The U.S. commodity market is already saturated [Avery, 1998, par. 3]. For prices to increase, foreign demand would have to increase by more than this supply increase. This has not happened. From 1996 to 1998 U.S. agricultural export quantities showed little variation. The dollar value of exports dropped substantially in those years. Exports totaled \$60.4 billion dollars in 1996, \$57.2 in 1997, and \$47 from January to November of 1998. This figure is \$5 billion less than January to November of 1997 [Economic Report of The President, 1999, 443]. With the steep inelastic foreign demand curve not increasing, the shift of the inelastic supply curve of agricultural products resulted in prices falling.

The persistent increase in world production of food products in recent years in combination with the erratic shifts in the severely inelastic global demand for those products has led to disastrously low prices for those products, and business failure for many American farmers [Cochrane, 1999, par. 23].

These low prices will exist until “farmers” have enough market control to lower production or foreign demand increases. The window of opportunity for these changes is quickly closing for small farmers. Large farmers or agribusiness companies will most likely see the benefits of such changes.

The Act does not address the fact that other countries will still be subsidizing some of the same commodities that the U.S. government will be dropping support for. With the absence of federal payments for program crops and prices falling, some farmers will not be able to compete with producers in other countries that still have the subsidies. This will force farmers to grow crops which may not be as suitable for their climate or soil composition, resulting in a further increase in the supply of certain commodities [Blakely, 1996, par. 11]. This makes the

supply shock of those commodities more severe and prices even lower. The upside of this is that it also decreases domestic supply of the commodities that farmers shift resources away from.

Only the small farmer can lose when these 12 million acres are put into production. Planting more crops on land that was previously set aside will require more inputs such as fertilizer, seed, and pesticides. Greater total output will also increase the need for more storage and transportation [Blakely, 1996, par. 7]. These costs are essentially fixed once the crops are in the field. When demand doesn't increase relative to supply, prices fall. Food processors get commodities at lower prices and sell the products with little or no discount to the consumer.

Export agriculture is, in general, not assisting the U.S. farmer, not feeding undernourished populations, but rather the grain companies that benefit from the movement and processing of these grains [Muller, par. 2]

Thus, past and present farm policy has done more harm than good. The government has kept policies in place too long and then pulled them too quickly, leaving experts with differing opinions on what can be done to pick up the pieces. "The support programs put in place over the years—price supports, deficiency payments, and acreage controls—lacked the capacity, and in many cases the appropriate design to cope with the great downward swings in farm prices..." [Cochrane, 1999, par. 6]. "In order to deal with this inherent instability of agricultural markets and to help producers, governments need to intervene" [Matsumoto, 1998, par. 7]. Free markets are only desirable if society as a whole is better off when the forces of supply and demand are allowed to shape an industry. If no government action is taken to change the current situation in the agricultural industry, society may not benefit from free markets in food production.

VI. Vertical Integration

"Consolidation is certainly not new in agriculture -- it has been underway for most of the twentieth century. What is new is the type and speed of the consolidation" [Drabenstott, 1999, par.1]. The vertical integration of agriculture will continue until the American farmer of the past is gone

and large agribusiness has complete control of the food supply. There is an obvious trend toward the integration of large agribusiness companies in an attempt to gain the necessary resources to control every step involved in getting food products on the shelves. Economists have become concerned about the concentration in the food processing industry. They fear this will lead to anticompetitive behavior and lower prices for farm products [Hamilton, 1997, par. 4]. This integration comes in various forms, but the last link in the chain is the actual production of commodities. With all the cards stacked against them, farmers will soon be just another link in this chain. The change is inevitable.

The farmer is becoming nothing more than a hired hand that will be told how to plant and what to grow. These orders will come from the same companies that the farmer helped build with generations of business. And they will be hard to swallow. Even harder to swallow will be the small corporate payroll check that will come in the mail. It will be small because of the countless numbers of low skilled workers that can take their place on the modernized farm and because of the usual payroll deductions for Uncle Sam, the mastermind of the Freedom to Farm Act.

Some of the motives behind vertical integration are merely the implementation of good business practices. Drabenstott feels that consolidation in agriculture is generally positive if, because of economies of scale, it leads to lower consumer food prices [1999, par 5]. With the returns to size that agricultural technology offers, production costs can be drastically reduced. He goes on to state, "There is a point, of course, where concentration can give rise to monopoly power. At such a point any increase in concentration would only boost industry profits without benefiting consumers" [Drabenstott, 1999, par 20]. Another motivation for vertical integration is a major reduction in marketing costs. If the producer is tied to the processor then there is no need to spend money to attract their business; they already have rights to their output [Hennessy, 1996, par. 15].

The farmers' best bet may be to rent what land they have to the agribusiness and find a completely different job. Records kept by the University of Minnesota's Southwest Farm Business Management Association from 1983-97 revealed that corn producers who rented their land never once made as much as the landlord. Soybean producers who rented land made more than their landlords did on only two occasions [Levins, par. 7].

Once again this is just an example of the progression of business, right? Wrong, this is progression, but not the kind that can be allowed to continue. This end product here is food, and consumer demand for this product is inelastic. Concentrated control of the food supply is underway, and it has some very serious consequences.

The major concern about concentration in the food system focuses on the control exercised by a handful of firms over decision-making throughout the food system. The question is who is able to make decisions about buying and selling products in a marketplace. The focus of economic power is usually placed on the individual firm and its market share. For some of the global firms, this is still somewhat appropriate. However, decision-making can also be exercised through the various relationships in which a firm is involved even if it does not hold a majority share [Heffernan, 1999, par. 12].

Extensive takeovers, partnerships, and strategic alliances are giving companies the seed-to-shelf capability. When a few major players have established themselves at the top and sufficient market power has been attained by these few, the ability to make decisions about the products consumers can buy and at what price will be achieved. With inelastic demand for food, controlled fluctuation in the food supply will cause major price increases for consumers. To some extent, profitability may be decided upon before the output even reaches the shelf.

To make sure that consumers have the right of choice in the marketplace, antitrust laws follow two criteria: companies can't limit competition such that it hurts consumers, and they can't try to or succeed in monopolizing an industry through unfair practices [Pitofsky, par 4]. Robert Pitofsky, the Chairman of the Federal Trade Commission states, "The Sherman Act, the first federal 'antitrust law,' was enacted in 1890, at a time when there was enormous concern about 'trusts'—combinations of companies that were able to control entire industries" [par. 2]. "Section 7 of the Clayton Act prohibits mergers and acquisitions where the effect 'may be to substantially lessen competition, or to tend to create a monopoly'" [Federal Trade Commission, par. 5]. For a merger to be deemed anti-competitive, the market must be substantially concentrated after the merger, and the merger makes it difficult for new firms to enter

the market and compete [Federal Trade Commission b, par. 5]. If these are the guidelines for the Federal Trade Commission to take action, why haven't they acted?

There are quite a few examples of the current market concentration in agribusiness. Seventy-five percent of the nation's grain storage is owned by four companies. The same four companies mill fifty-six percent of the nation's flour. The four top beef packers slaughter eighty percent of the nation's beef. The top four hog packers control fifty-five percent of the market [Ingersoll, 2000, p.A28]. All of these examples constitute significant market power.

VII. Rural Communities

The delay in the natural progression of business makes the ramifications of stopping agricultural supports more drastic. Towns have been built around agriculture. The small farmer is usually located in an area where access to supplies, health care, education, and other necessities is limited. The small town gave the farmer access to these necessities and many towns prospered. Infrastructure is in place to make these towns a healthy and wholesome place to live and work. But because many of these towns are located far from population centers, they are frequently nearly self-sustaining. "In the past when family businesses were the predominant system in rural communities, researchers talked of multiplier effects of three to four" [Heffernan, 1999, par. 52]. These estimates may be high, but the point is still the same. Because the populations of these communities are small, the loss of just a few farmers' business can have a crippling impact on the community.

As farm families have disappeared, so has the support for small towns and the services they provided—health and educational services, and shopping and repair services. In many farming areas neighborhood activities have simply disappeared with the people [Cochrane, 1999, par. 11].

All businesses within the community contribute to its success, but agriculture is the root of the success of small towns. If the roots can't get to water the tree dies. If small farming is lost in these areas the towns will not survive. Government intervention gave these communities the

false hope that agriculture would remain an industry made up of many producers. The Freedom to Farm Act takes away that hope for the future and years of labor and resources used to build these communities will be wasted.

The vertically integrated agribusiness will do little to help keep these small towns afloat. "Consolidation simply means that far fewer farm communities will be viable in the future" [Drabenstott, 1999, par.29]. The local vet is no longer needed because the large hog and beef producers have their own. The grain elevator has no business because the agribusiness trucks the grains directly to the mill or their own storage facility. Farm supplies are likely produced by the food cluster. If not, "Farm supplies nowadays are delivered direct from the manufacturer to the farm; the equipment store is by-passed" [The Economist, 1991, par. 9]. Those affected include churches, schools, and repair shops. The list continues until the town is completely picked apart. Nearly the only business to remain profitable in these times is the local bar, where the grain for the alcohol is produced by the same food cluster that caused the community's troubles.

Bigness is the problem and the power that bigness brings with it. Introduce a giant corporation providing a commonly used farm input into a local farming community and it will have every advantage in every transaction, or activity, that it enters into, ranging from fixing the terms of a sale to, or a contract with, a local farmer, to obtaining from the local unit of government a tax-free site on which to locate its plant, to beating up on its local competitor. A giant modern corporation operating in a local farm community can be likened to a bull elephant in a China shop. The power of the giant overwhelms and shatters the local establishment [Cochrane, 1999, par 17].

VIII. Conclusions

Small farming has always been an industry doomed by progression. Technology is available that gives the farmer the capability to out-produce global demand. Government production constraints have been in place to stop farmers from producing themselves out of the market. These programs should have been lifted long ago to allow the farmer to

adapt to market changes while they still had relative market power. Instead, the input suppliers and output demanders have grown into a few large companies. With the farmers still being small in comparison to these agribusiness companies, free markets will leave them unprotected and open to takeover. The Freedom to Farm Act took this protection away and caused a supply shock. Without an increase in global demand the supply shock results in falling prices. The low prices cause farmers to go under. First the small farmers will go under, then gradually larger farms will be phased out and the pieces will be picked up by the large agribusinesses.

Agribusiness will have control of food production from seed to shelf. Consumers will be forced to pay higher prices. The only beneficiaries of this progression will be the Agribusiness clusters. Rural communities will not survive when the farmer is gone because the web of business built around the farmer that supports the community will be gone. Efforts should be made to track the effect that fewer farms, farmers and their families have had on rural communities.

The Freedom to Farm Act should have phased out subsidy payments slower. More importantly it should have slowly phased out the production constraints on the same schedule. This action would have lessened the supply shock and the small farmer would have disappeared at a more gradual pace. Efforts need to be directed to offering alternatives to farmers. Future government payments to farmers should go toward educating the farmer for today's workforce or toward alternative forms of farming, such as organic farming, that can yield a profit but will not be threatened by the changing industry. Research needs to look at trends in commodity exports and evaluate the increase or non-increase of global demand for commodities.

The Federal Trade Commission needs to investigate the current concentration in agribusiness. Swift action must be taken to stop further concentration and allow for entrants. If the action is quick and can force the break up of a few of the larger agribusiness companies, farmer cooperatives may still have a chance. The small farmers that remain will at least have the opportunity to band together and keep an adapted form of their previous way of life.

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