The changing swine industry and public policy

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Larger units, vertical integration, and other structural changes to the swine industry are controversial in Minnesota as elsewhere. I'm frequently asked how public policies might be modified in order to influence these changes. My response is that we need to understand how government policies may have played a role in triggering past changes in the livestock industry so that we are in a better position to evaluate future policy alternatives.

Structural change in agriculture since World War II has been described as a four-step process.[1] Forces outside farming trigger structural change, at first to exploit new conditions, and later to manage new risks. New technology, market conditions, and policies initiate:

- technological adaptation;
- shift to new producing areas;
- growth and development; and
- adjustment to risk.

Public policies related to structural change

Corporate farm laws are one type of state-level control that is clearly intended to affect structure by preserving family farms. However, these laws do not limit the size of farms that wealthy individuals can own as proprietorships or general partnerships, at least in Minnesota. As state-level restrictions, they also allow firms to play one state off against another.

Pollution control, zoning, and nuisance regulations are other controls that currently affect livestock operations. Large operations are regulated more closely than small ones. To that extent, pollution regulations could affect farm size distribution over time by imposing costly requirements on larger units. Differences in regulations among states could also affect where new operations locate. It appears that pollution regulations can treat large operations differently only to the extent that they pose different pollution risks, not because they pose an economic threat to smaller farms. Zoning regulations deal with incompatibility of land uses affecting the general welfare of the community. Because zoning is done at the county or township level, it is relatively easy for livestock operations and other businesses to move to another locale. Nuisance regulations are another control that can affect structure to the extent that lawsuits impose legal costs on large operations and induce them to locate in less densely populated areas.

Federal antitrust policy has been involved in regulating meat packers, who have been prevented from integrating forward into retail operations (among other things).[2] Antitrust has not been a factor at the farm level.

Other government policies that may have played a role in triggering structural changes in the past are tax policies, commodity programs, and consumer protection and environmental regulations. It is always difficult to determine the intent behind any given policy that emerges from the legislative process. There is no evidence to suggest that these policies were enacted with the intent of changing the structure of agriculture. Rather, they seem to be aimed at reducing production and marketing costs; increasing the efficiency of resource use; satisfying increased and changed demands for products and services; and minimizing the risks of producers, processors, and distributors. Often, the government acts in response to slow rates of change resulting from fixed capital investments and production lags, or a perceived "market failure" that can result from:

- a lack of information or uncertainty;
- problems with public goods such as water quality; and
- natural monopolies such as utilities.

The 1980s federal budget deficit, which was financed by government borrowing at high interest rates, placed a burden on agriculture and other credit-using sectors of the economy. The deficit especially traumatized family farmers, who were particularly vulnerable because of heavy borrowing on cropland in the 1970s. The resulting economic turmoil may have altered the structure of the agricultural industry by reducing competition for expanding, large-scale operations.

Tax deductions, credits, and high tax brackets are often viewed as triggering structural change because they lower the after-tax price of investments for those taxpayers with income and tax obligations large enough to absorb them. Tax policies linked to past structural change include:

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- investment tax credits;
- accelerated depreciation;
- deducting farm losses against nonfarm income; and
- cash basis accounting.

The Tax Reform Act of 1986 reduced the potential distortions by dropping investment tax credits, limiting the deductibility of farm losses, changing depreciation schedules, and changing tax brackets.

Some economists argue that commodity programs for feed grains have stabilized feed prices and led to surpluses and low prices for feed grains from time to time. The rationale is that the effective "price" that is being supported (what the crop producer gets) is the sum of the market price for the grain plus the deficiency payment. But the livestock producer only pays the market price. If the market price is less than it would be without the program, the crop producer is not hurt as long as the deficiency payment makes up the difference. The other main feature of the feedgrain program, crop land setaside, restricts supply so that deficiency payments are minimized. Still, deficiency payments have been substantial in some years. A major input risk for livestock producers has been reduced to the extent that feed prices have been stabilized. Without such stability, it might have been more difficult for large, specialized livestock operations to develop.

Consumer protection and environmental regulations of the 1950s and 1960s hastened the broiler industry's shift to new production areas. Many processing plants in older areas closed rather than incur the expenses of meeting new waste disposal and sanitation standards. Consumer protection regulations do not seem to be a factor in the recent livestock industry structural changes. A recent study at Texas A&M University suggests that tightened environmental regulations may place relatively higher costs on smaller dairy farms compared to larger ones. If so, they could accelerate the rate at which the dairy industry restructures with smaller farms exiting. No similar study has yet been done on the swine industry.

Contrasting views of the economy

Reimund, et al., suggest that the desired structure of the agricultural sector depends on society's ordering of diverse, sometimes conflicting demands:

> The overriding demand historically placed on agriculture as an industrial sector of the economy has been to provide an adequate supply of food and fiber for the domestic population. In addition, agriculture has been called on to preserve a set of beliefs and values embodying independence, freedom, and other virtues deemed by many to be disappearing. In recent years, the agricultural sector has been increasingly called upon to satisfy other demands, including providing green or open space, protecting the environment, conserving natural resources, meeting export demands, and serving as a foreign policy tool.[2]

An even more fundamental question relates to the emphasis we as a society place on rewarding individual effort versus helping the less fortunate. Adam Smith's 1776 book, *The Wealth of Nations*, argued that an "invisible hand" promotes the public interest most effectively when each individual pursues only his own gain.

A contrasting view expressed in the 1986 book, *Economic Justice for All*, by the National Conference of Catholic Bishops, asserts that all people have a right to participate in the economic life of society and that all members of society have a special obligation to the poor and vulnerable. Cooperation, rather than competition, is emphasized as the way to most effectively promote the public interest. The implication seems to be that even if Adam Smith's scenario would lead to the greatest total economic output, it is worth sacrificing some of that output to achieve a more even distribution of jobs and income.

Applying these arguments to the livestock industry, someone who subscribes to Adam Smith's view would probably favor allowing livestock operations to pursue any expansion opportunities that they find profitable, even if other producers are driven out in the process. The contrasting view might be that any particular operation should forgo profitable expansion opportunities for the good of other producers.

The field of ethics is concerned with philosophical questions such as how to find a common ground among contrasting views such as those discussed above. In the past few years, social scientists have taken a new interest in applying ethical theories to agricultural policy issues. For an introduction to this new area of inquiry, read *Ethics, Public Policy and Agriculture* by Paul Thompson, Robert Matthews, and Eileen van Ravenswaay. They discuss the idea of a social contract, an implied agreement among all members of society to accept a limited set of rules based on enlightened self-interest that make social cooperation possible. These rules can relate to rights (libertarianism or egalitarianism), consequences (utilitarianism), or procedures used to reach agreement and adjudicate disputes.

Wendell Berry's essays and poetry on the impact of technology on agriculture, such as *The Unsettling of America*, do not fit neatly into any of these ethical theories, according to Thompson, et al. Berry appears to reject self-interested motives and instead portrays a web of loyalties and community ties based on morality, loyalty, and character.

Agrarianism

The agrarian belief that agriculture helps to preserve values of independence, freedom, and other virtues dates back to Thomas Jefferson. In *Notes on the State of Virginia*, he says that "those who labour in the earth" have (if anyone has) been chosen to receive God's "peculiar deposit for substantial and genuine virtue." In his 1785 letter to John Jay, he writes:

> Cultivators of the earth are the most valuable citizens. They are the most vigorous, the most independent, the most virtuous, and they are tied to their country and wedded to its liberty and interests by the most lasting bonds.

These passages have often been quoted to bring forward the idea of a political duty to preserve and protect farms. William P. Browne et al., in their 1992 book *Sacred Cows and Hot Potatoes*, review the context for Jefferson's statements. They point out that the quoted passages were written between the Declaration of Independence and the Constitution. The constitutional debate between Jefferson and the Federalists, notably Alexander Hamilton, centered on whether power should be concentrated or broadly distributed. A reason for concentrating power lies in the individual citizen's tendency to shirk public responsibility. Most of us press for private interests.

Jefferson's argument was intended to suggest that farming would induce long-running patterns of conduct that would provide a pattern for American society as a whole. Given the experiences of his day, Jefferson had good reason to think that a nation of pragmatic farmers would be easier to govern than a nation of merchants, manufacturers, and landless laborers because the interests of the landholders are more similar to the interests and long-term well-being of the government. People in predominantly urban occupations such as manufacturers, merchants, and tradesmen can convert wealth into capital and abandon a crumbling government; farmers cannot. Thus the farmer is the more reliable citizen.

Browne, et al.,[5] argue that there has been a major shift in meaning of the Jeffersonian argument in recent times, from viewing farmers as "embodying moral and political ideals" that should be applied to all citizens, to using these arguments as "reasons for exempting farmers" from having to make adjustments that other sectors of the economy make in response to market forces:

> Populists present two unique strands of reasoning for making an exception for family farmers. . . . The first strand of reasoning sees farms as an important 'safety valve' necessary to preserve individual liberties in capitalist societies. The second strand sees family farms as repositories for family values and hence for traditional ways of defining personal loyalties within a framework of community.

Browne, et al., point out that the public today seems less willing to see the farming community as the principal source of moral inspiration and virtue than once was the case. They observe that while Jefferson's statements have a political message of preserving farms as a basis of the American economy, they can also be interpreted more generally as simply pointing out the importance of reconciling self-interest with the public good.

Other arguments related to the agrarian philosophy are that people are needed in rural areas to help keep the rural infrastructure intact, and that long-term "family farmers" will be more actively involved in their communities than employees who may experience constant turnover and movement. Whether there are enough family farmers left at this time, even in the most agriculturally-based counties, to make much difference to the rural infrastructure is often questioned. What are the cost and effectiveness of family farm policies compared to policies for retaining and recruiting nonfarm industries as ways of retaining rural population? How effective and costly would other policies be to increase stability and community involvement of both nonfarm and farm people and reconcile self-interest with the public good, compared to a strategy of preserving family farms for that purpose?

If we accept the agrarian argument that farmers should be protected from the vagaries of the marketplace to a greater extent than other industries, then practical questions arise as to:

- how to define the 'farms' and 'farmers' to be protected; and
- how to structure the institutional rules that provide the protection.

Definitions and rules have been developed around operation size, corporate forms of business organization, and family role in the farm business. The definition of a farmer becomes complicated in the case of production contracts. Is the on-site contractee-producer the farmer, or is the contractor the farmer? Proposed restrictive rules on 'large' farms run up against the sentiment held by most operators, regardless of farm size: "A large farm is one just a little bigger than mine."

An economic argument for restricting farm size is that farms could become too big to fail. When a moderate-sized farm fails today, it is traumatic for those involved, but does not disrupt the community or cause widespread social problems. Neighbors learn from the experience, and are less likely to fail themselves. Large firms in other industries are often able to postpone change until catastrophic failure threatens sudden and massive unemployment and financial losses. Moreover, the communities that are home to these large firms are under great pressure to prevent failures through special concessions.

Perhaps a counter argument could be made that farms today have in fact *not* been allowed to fail on a widespread scale any more than large, nonfarm firms have. Were the mid-1980s farm debt writedowns and the dairy buyout, for example, any different from the Chrysler or Northwest Airlines bailouts? The 1980s farm debt writedowns helped some farmers to survive to compete with others who did not receive concessions.

Another argument that agrarians sometimes bring up in favor of slowing the trend to fewer, larger farms is that a few large farms would be able to restrict supplies and raise prices to higher-than-competitive levels. If this happened, consumers would suffer. Benefits of economies of size would be retained by the large farms in the form of higher profits rather than being passed along as lower food prices. Whether larger farms behaving in this way would have a noticeable impact on retail food prices is unclear, however. Most farm input supply, processing, and food retailing and distribution is already in the hands of a relatively small numbers of large firms. Uncompetitive behavior of the large firms at these other stages in the food chain does not appear to be a major public policy issue at this time.

Conclusion

Current structural changes in the swine and dairy industry seem to be following a general pattern observed earlier in several other commodities:

- new technology;
- shift to new producing areas;
- growth; and
- adjustment to risk.

Tax policy, commodity programs, and consumer protection and environmental regulations may have been factors in triggering past structural change.

There is keen interest in maintaining a viable, healthy rural economy and society. A fundamental public issue that applies to the entire economy is how to structure institutional rules to reward individual effort while at the same time helping the less fortunate. This fundamental question underlies much of the debate over preserving family farms while providing an adequate food supply. Family farm policies and non-agricultural industry recruitment/retention programs are both approaches for retaining rural population and increasing stability and community involvement.

References

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DOS Tip

At the DOS prompt (i.e., C:\>) the F3 key displays the last DOS command that was typed. After displaying the last command, pressing the <Enter> key will run it. This can save time and keystrokes when you run the same command over and over again. For example, if you have a bunch of floppy disks, and you want to see what files are on them, you only need to type **DIR A:** for the first disk and hit <F3> followed by <Enter>.

If you find this tip helpful, you might also want to try <F1>, too. The F1 key retypes the previous line for you, one character at a time. This can be useful when you want to use the same command again, but with a change.