THE BUSINESS OF AGRICULTURE

An Address by

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Reapportionment is the legal acknowledgment of a political fact, which in turn was no more than belated recognition of demographic reality. The shift of political balance from the county to the cities started four decades ago and is not finished yet. I am not here to argue the justice in this shift; it is sufficient for our purposes today to accept it as a current dimension of agriculture.

In at least one of its accompanying side effects, it has been an unexpected blessing, albeit not without some pain. It has forced a searching inquiry by the "establishment" of American agriculture into the structure of agriculture itself -- an inquiry gathering momentum as the first tentative conclusions are being aired in meetings across the United States by the various components of this same establishment. In this establishment are to be found the great agricultural schools, of which this institution is a distinguished example; the USDA; the American Bankers Association; state banking associations; farm organizations; national foundations; and almost a full range of American industrial groups, from the obvious suppliers of agriculture inputs to such improbable industries as computer manufacturers, and many others.

One of the most important conclusions to emerge from all of this has been that agriculture, like God, is far from dead. To the contrary -- agriculture is very much alive, and in certain of its aspects at least, is being heralded in some quarters as a modern growth industry, one of a distinguished group including such exotics as aero-space and nuclear power.

For this inquiry has destroyed, or at least substantially weakened, one of the most durable of our American myths -- that U. S. agriculture is a monolithic structure with single operations, identical operating problems, and so on. Instead, what has been revealed is a multi-structured complex of enterprises that is truly a cross-section of the total of American society. For the purposes of my subject, though, I am going to lump these into two main categories. The first of these is not a subject with which I am directly concerned today. This category is comprised of the farming enterprises that are not viable economic units, and as presently constituted will never be. These are a social problem primarily, and will require programs of dimension entirely different from the others. In the second category are the farm units with current economic validity, constituting the production segment of agri-business, which also includes suppliers, processors, and distributors.

Recognition of agri-business as a part of American industry has been slow coming. But the figures are startling.

In the first category there are roughly 2,250,000 farms producing less than 5% of our nation's food and fibre. In the latter category there are about 1,000,000 commercial farming units, of which 140,000 contribute 40% of the total U. S. farm production. 4% of the farms produce 40% of the output.

Or another comparison -- in Montana, about one-fourth of the farms generate about 60% of the income. This is a product of size, although the correlation breaks down in the very largest units. The smallest units, those under an average of 826 acres, were, in 1959, 36½% of all farms -- yet they produced only 6% of agricultural sales.

In the broad category of all agriculture, including the support and derivative industries, there have been great shifts in human and financial resources. For example, for the last period for which I could obtain data, 1947 - 1954, there were these changes in the number of workers --

Number of Workers (Millions)

	1947	1954	% Change
Farm Supplies	5.0	6.0	20.0%
Farming	10.0	8.0	-20.0
Proc.-Dist.	9.5	10.0	5.3
Total Agribusiness	24.5	24.0	-2.0%

This is what happened to the dollars --

Aggregate as % of Total Agribusiness

	1947	1954
Farm Supplies	20.4%	25.0%
Farming	40.8	33.3
Proc.-Dist.	38.8	41.7
Total Agribusiness	100.0%	100.0%

I suspect the shifts have continued, and more recent data will show more dollars and workers in the derivative and support sector.

Before leaving the first category, those hapless individuals who are on the marginal and submarginal units, I want to be sure I do not leave an impression of indifference to their plight. It is a serious one, and a matter for increased national concern. But they are a social problem -- a part of structural unemployment and under-employment. In terms of the total U. S. economy, Gardner Ackley recently stated there are two dimensions to the attack on unemployment. Broad economic policies can be applied to produce a condition of full employment -- which still leaves a hard core of roughly 3.5% - 4%

unemployed, who, by reason of color, age, lack of skills, or whatever, must be helped in some other specifically directed program. This is equally true of those in the first category of agriculture I mentioned earlier. To use total agriculture economic policy as an instrument to cure what is essentially a rural poverty problem is a mistake.

But back to the agri-business producer -- these fortunate few who are producing the food and fibre for an increasing part of the world. Just as other segments of American business, this modern farmer is concerned with these things -- price, new products, market structures, financing, and costs. Price is established by neutral market forces, except as they may be modified by government intervention. Like most American industry, he has little control over these. There is little reason to expect price increases except through a spill-over of the price adjustments brought about by quality improvement and the general upward movement of prices. Against these upward pressures, there are the downward pressures of competition intra- and inter-industry; technological advances; and customer resistance. On balance, there is no reason to expect agricultural prices to behave in a relatively free market any differently than the price of any other commodity.

Marketing structures for agricultural products are undergoing change in response to a number of factors -- the marketing dominance of relatively few large grocery chains; the relocation taking place in the meat packing industry; the trend toward integration of a few segments of agriculture, of which potato processing is perhaps the most recent; price control of milk by state and local governments; and probably many others. Although I am only guessing, I suspect the development of large agricultural complexes

in some areas of the United States -- the counterparts in agriculture of the modern large industrial corporation -- may be producing a new set of marketing conditions. Certainly this is an area that warrants research. Almost certain to be more widely used is the marketing specialist. And with this specialist are going to come at least three more -- specialists in new product development and quality control; in financing; and in cost control. For hemmed in by price structures determined in the market place, the farmer must look inward -- how can he maintain a reasonable profit margin between an impersonal, fairly unresponsive price mechanism -- at least unresponsive to his individual costs -- and increasing costs? In a state like Montana, with major reliance on the property tax, facing a period of permanently higher money costs, a certainty of continued expansion of the minimum wage to all agriculture, little wonder there is discouragement. But American industry generally has been facing these problems for years, complaining loudly about the inexorable advance of everyone's prices but their own -- all the way to the bank. New products, tremendous leaps forward in technology, more effective utilization of plant and labor capacity, aggressive searches for new markets and marketing techniques -- these things have enabled American industry to increase profitability within a price structure that showed remarkable stability for five years, and still reflects less inflationary pressure than any other country in the free world.

But it has required new skills and new professions. And so will agriculture. To expect the modern farmer to become expert in all things is placing a charge on him no other businessman is expected to assume.

It seems to me there are three sources of technical assistance to which he should be turning -- in fact, is turning in many areas, including this district, for certain if not all the expertise he needs. These are the agricultural schools with their allied extension services; the manufacturers and distributors of farm supplies; and the financial community -- commercial banks, insurance companies, and the Farm Credit Administration units.

It is to two specific services I wish to turn in my remaining time -- computer use and credit facilities.

The computer has its agricultural use counterpart in most of the areas of general industrial application. These are mainly cost and product control. In itself, it is not a cost saving instrument if its use is confined solely to record keeping for tax purposes. It is only in the more sophisticated uses of costing, budgeting, and quality control that it comes into its own.

IBM has now held four agricultural symposia on computer applications. You might glance at the titles of the papers to get an overview of the range of application.

Ownership or leasing of a computer is beyond the reach of all except the largest and most diversified agricultural units. But this is no deterrent. Universities are now making time available, recognizing the research potential in addition to the service to a support community, in developing programs for computer use by farmers. Banks in some areas are moving aggressively into this

area. Bank of America is certainly a leader. The FICB in St. Paul has started a program this year for PCA customers in its area. Agricultural suppliers in some areas are also making computer time and programs available to customers.

There are a number of possibilities -- compilation of a list of computer users in Montana would be a starter. Of the utmost importance is more research into the software -- the basic computer programs -- and hopefully a standardization. Regional centers are being developed in the banking industry. Foreign as it may sound to a rancher in Montana, the computer may well become a tool as innovative and practical as the combine was thirty-odd years ago.

As to credit -- the current period of credit stringency has exposed weaknesses in the commercial banking system and its application to agriculture. Rigid compartmenting of credit according to long, intermediate, and short-term credit does not serve the needs of modern agriculture. The average farming operation often is a hodgepodge of unrelated and uncoordinated public and private financing. The credit needs of a farming operation should be regarded as a total rather than separate elements supplied by unrelated segments of the financial community. As farming operations grow, so do the numbers of decisions facing each farm operator; what is needed is an arrangement permitting the farm operator to delegate to a single source his financial management function.

With the growth in size of agricultural units, the credit needs have increased in almost geometric proportions. Unfortunately, these needs are often greater than can be met by a single local bank. Even more serious in our present banking structure is the violence that is done to an insurance concept of lending with the concentration of major risks in a single geographic and economic area.

A device of regional pooling of agricultural credit risks within the conventional banking system is important, and will become a necessity as the years go by. An encouraging note has been the formation of Northwest Agricultural Credit Company by Northwest Bancorporation to serve as a participation medium for Banco affiliates. But continued education of the importance of credit and risk distribution among country banks must be stressed by interested agencies. Key to this process will be the development of agricultural credit staffs in the larger banks, whose services will be available as part of the regular correspondent relationship, so that the total credit needs of the farm customer can be adequately served within the context of the credit needs of the area.

Budget assistance, analysis, marketing advice are just a few of the areas of knowledge in which the modern agricultural credit man must have reasonable proficiency. Many of the patterns of the Farm Credit Administration could be borrowed quite usefully by the commercial banking system in this regard. Agricultural credit conferences, specialized programs within the banking associations, designed to acquaint the country banker with the changing pattern of agricultural credit, are essential parts of this program. Almost by default, the Farm Credit System is continuing to enlarge its participation in agricultural credit at the expense of commercial banking. While competition among the units of agricultural financing is desirable and should be encouraged, there is still room for professional dialogue to everyone's advantage.

The future will find the debt on larger farm units being passed from generation to generation as farms continue to increase in size and the requirements for additional capital expand. But this is not new to business generally;

what must be established is the methodology for agricultural application. Reliance on borrowed money will continue to grow in importance during this period when agriculture is breaking out in all directions. Yet it is essential that a proper balance of equity capital be preserved, if the farmer is to avoid being caught between debt service pressures on the one hand, and market fluctuations on the other. This requires a further trend toward the corporate farm.

It is peculiar to agricultural financing, and this again is perhaps a byproduct of the small size of many of the units, that the operation is usually associated with a single individual, and expressed in personal terms rather than those of the total operation or a particular enterprise. The ability to repay should be the basis for financing, rather than the personal expression of the operator. This, of course, requires efficiency in production plus higher levels of professional farm management. Growth in size of agricultural units should be encouraged, rather than discouraged. Essential to this process of expansion is a system of financing that will meet not only the capital costs of acquisition, but operating budgets.

Farm expansion is not synonymous with increased acreage, for greater productivity is the objective. More intensive use of existing acreage is often the key to increased yields, frequently requiring an increase in the use of purchased inputs. Important to intensive use is recognition that the farmer is no longer a self-sustaining economic unit, but, like other businesses, is dependent to a great extent on production assists from off-farm sources.

What are going to be the credit needs of agriculture in the Ninth Federal Reserve District five or ten years hence? Technological change, new machines,

new breeds, fertilizers, all carry price tags that must be paid before the cost recovery through use can be started. What are the best credit devices? We have need for more research -- a plaintive and familiar cry -- and the use of the modern credit devices applicable from industry to agriculture have yet to be generally accepted. Surely the need for an educational effort inside and outside of MSU is greater than ever before.

I suppose what I have been saying adds up to just that. The farmer must know of the modern business tools before he can ask for them. And the process of education, while it must start in an agri-business framework at the undergraduate level, must continue with seminars, trade association programs -- the whole spectrum of education communication. No modern business manager can afford to be less than fully informed -- he can and does demand that all the peripheral support professions and suppliers contribute their share to his continuing education. I submit, this then is less a challenge to the modern ag school than a requirement for survival.