

Can American Farmers Compete?

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Prepared for presentation at Federal Home Loan Bank of Des Moines fall meetings – Kansas City, Springfield, and St. Louis, Missouri, October 1-3, 2001.

Until a decade or so ago, few questioned the ability of American farmers to compete with farmers anywhere in the world. We were the global leaders in agriculture. We had the most highly educated and efficient farmers in the world using the latest production technologies to cultivate the best agricultural land in the world. However, in recent years, the US share of global agricultural exports has plummeted, dropping farm profits, and shaking confidence in the American farmer's ability to compete.

The U.S. market share of global exports of soybean and soybean product, for example, shrank from 80 percent during the 1960s to just 35 percent in 1998-2000. Over that same period, the combined share for Argentina and Brazil grew from less than 10 to nearly 50 percent. Abundant land and favorable climates, coupled with low-cost labor and a favorable exchange rate, have given Argentina and Brazil a clear competitive advantage. It's not that American farmers are abandoning soybeans in favor of other crops – in fact, acres planted to soybeans in the U.S. have continued to expand. Harvested acres of wheat in the U.S., on the other hand, are down more than one-third from the peak in 1981, as U.S. farmers have abandoned wheat for other, more profitable, crops. Corn acreage has remained relatively steady over the years, bolstered primarily by strong domestic demand for sweeteners, while the U.S. faces continued strong competition from Argentina in export markets for corn (USDA, ERS Agricultural Outlook).

U.S. livestock producers face strong competition from Canada and Mexico in domestic livestock and meat markets, causing some livestock producers to question the wisdom of the NAFTA, which opened our markets to competition from the North and South. Threats by agribusiness to move their large-scale confinement animal feeding operations to Mexico or elsewhere, to avoid growing environmental and animal welfare restrictions, also cast a shadow on the future of U.S. meat production. Large-scale animal feeding operations have been the primary source of the U.S. competitive advantage in production of high quality meat and poultry. South America and Australia are lower cost producers of range cattle, and countries such as Mexico and China could gain competitive advantages in restructured global pork and poultry industries.

Declining exports have led American farmers into their fourth straight year of economic “emergency” – resulting in \$5-\$9 billion per year in “emergency” government payments, in addition to already generous farm program benefits. American farmers today are among the most heavily subsidized in the world, and Congress shows little inclination toward risking a return to free markets in the new farm bill. Without generous subsidies from taxpayers, American farm exports would be far less, and we would be in the midst of an American “farm financial crisis” at least as severe as that of the 1980s. Without

continued large subsidies, American farmers quite likely will not be able to compete in a free market global economy, regardless of what the free market promoters may say.

The General Economic Situation

The USDA has persistently forecast modest economic recovery for the agricultural sector over the next few years, based on the assumption of recovering global and U.S. economies and strengthening markets for U.S. agricultural exports. However, such optimistic forecasts would appear to be founded at least as much in “wishful thinking” as in objective economic analysis. There are legitimate reasons to question whether or not the global and U.S. economies will return to their previous levels of strength, and whether U.S. farmers could compete, even if global and national economic conditions improve.

Any discussion of the economic situation and outlook should be prefaced with the frank admission that economists cannot predict the future – at least with any reasonable degree of accuracy. Economists didn't forecast the booming U.S. economy of the 1990s, nor did they forecast the recent record-level federal budget surpluses. When President Clinton took office in 1992, economists were projecting a continuing sluggish national economy through the end of the decade, making a growing federal budget deficit one of the major economic problems confronting the new administration. “It's the economy, stupid,” was the rallying cry of the successful Clinton-Gore campaign. Economists didn't forecast the skyrocketing stock market, and economists are no more likely to forecast its ultimate decline – or collapse. It was Alan Greenspan, arguably the most respected of American economists, who talked of “irrational exuberance” in the stock market, long before the Dow Jones approached 10,000.

Although I have been out of the “economic forecasting business” for more than a decade, I spent much of the first twenty years of my professional career as an economic analyst. For the first fifteen, I was a livestock market analyst, and for the next five or so was an analyst of agricultural policy and trade issues. During a seven-year period in late '70s and early '80s, I kept accurate records of my quarterly forecasts of livestock prices, along with those of several other nationally known market-analysts, including the USDA. I know for a fact that we couldn't forecast very well then, and have no reason to believe that anyone is doing significantly better today – whether forecasting specific commodity prices or general economic conditions.

Certainly, economic analysts can provide some very useful insights into the nature of the economic phenomena affecting such things as interest rates, employment levels, wage rates, imports, exports, commodity prices, land prices, and net farm income. Economic analysis can help us understand more quickly what is happening, when it happens, and why it is happening. But, economists are not much better than any other well-informed “person on the street,” in foretelling our economic future. Given this limitation, many analysts have resorted to providing “future scenarios” rather than forecasts of the future. They lay out a set or reasonable assumptions concerning future economic conditions and derive the logical economic implications of those

assumptions. Following this seemingly more reasonable approach, I will provide some logical economic scenarios for the future.

The US economy is in a period of “slowdown” – if not an “outright recession.” The initial official estimate placed overall economic growth in the second quarter of 2001 at 0.2 percent. Since the generally accepted definition of “recession” has become two consecutive quarters of “negative economic growth,” i.e. economic decline, some economists feel that a recovery is now underway, and that the economy has avoided a “recession.” Others, including myself, believe that it is at least as likely that the economy is still in decline, and that the second quarter growth estimate could easily be revised downward to a negative number. Thus, a revised negative second quarter and a negative third quarter would qualify as a statistical “recession.” But even more important, such an admission of economic weakness could burst the bubble of consumer optimism that has been virtually the only thing propping up the US economy for at least the past year.

The US economy is vulnerable to an outright “depression” – although we have yet to develop a generally accepted definition of this dreaded phenomenon. The U.S. accounts for about a quarter of all global economic activity. For at least the past year, the U.S. economy has been about the only source of strength in the global economy. The Japanese, Korean, and the other Pacific Rim economies have been struggling, without much success, to recover from a financial crisis resulting from deregulation of their financial institutions – similar to American’s savings and loan fiasco of the 1980s. The Japanese economy recorded a 2.7 percent decline in the first quarter of 1997, and has shown no real signs of recovery since. This is the longest period of economic decline in a major industrial nation since the great depression of the 1930s. Only a strong cultural commitment to providing employment has kept large numbers of Japanese workers out of the “soup lines.” Like in the 1930s, monetary policy has proven ineffective in Japan, where “real” interest rates are now negative, with no sign of increased investment in response.

As the US economy has moved toward recession, the Federal Reserve has announced six consecutive reductions in interest rates, totaling 2.75 percent, with little indication thus far of any positive response in the economy. As the interest rate approaches the rate of inflation, the real interest rate approaches zero, greatly limiting the ability of the Federal Reserve to do anything more to stimulate economic recovery. Such was the case during the Great Depression of the 1930s, when money for investments was essentially free, but potential investors still lacked the confidence needed to borrow and invest. During the depression of the 1930s, the federal government eventually took the initiative to borrow and spend, and with spending greatly accelerated to pay for World War II, eventually pulled the US economy out of recession.

The recent federal tax cut might seem to be a move in the right direction to address the growing risks of recession through expansionary federal “fiscal policy.” However, there is little to indicate that the recent reduction in taxes was anything more than the usual “fiscal policy by accident of politics.” There is nothing to indicate that the tax cut was

motivated by a desire to stimulate the economy rather than simply to cut taxes, period. Does anyone really believe that Republicans, or Democrats for that matter, would support the massive “deficit spending” necessary to recover from a depression, if consumers, as well as investors, were to suddenly lose confidence and quit spending? Neither the President nor Congress seems to have any real sense of fiscal purpose, neither of the fundamental nature of fiscal economic policy nor of their responsibility to adjust federal taxes and spending to help manage the general economy.

I am not forecasting an economic depression. The economy could be leveling out and could begin a modest recovery in 2002. However, if the current slowdown becomes a recession, and if the Fed loses its ability to stimulate the economy through monetary policy, the risk of national depression will become real and significant.

The Agricultural Economic Situation

The optimism that led to the “Freedom to Farm” act of 1995 was supported by the illusion that all American farmers needed to win the competition for global markets was a “level playing field.” If we could force the European Community to reduce farm subsidies and could open Japanese markets for our exports, our farmers could export their way to economic security. However, as expanding global production and shrinking global demand depressed global commodity markets, prices of agricultural commodities plummeted to unprofitable levels, dashing farmers' hopes for achieving prosperity through the global free market economy.

Some of the export problems of American farmers were of their own making, such as their insistence on using growth hormones in livestock feeding and genetically modified organisms (GMOs) in crop production. If you want to succeed in a “free market” economy, at the very least, you have to produce something that your customers are willing to consider buying. Some of their export problems were due to unfortunate circumstances, such as the financial crisis in Japan and Pacific Rim countries, which reduced U.S. export demand. But, the loss of US agricultural export markets were not a consequence of an “unlevel playing field.” In fact, the farmers of Europe, Canada, Australia, and South American now have legitimate reasons to complain about the unfair farm subsidies being paid to U.S. farmers.

Had there been a truly “level playing field,” many more U.S. farmers would have been forced out of the export game. American farmers are losing their competitiveness in world markets because the rules of the game are changing in the global food and fiber market.

Not so long ago, most agricultural technologies were “public information,” developed through publicly funded research programs at major agricultural Universities and at the USDA. Even in cases where a public technology wasn't “the best,” the best public technology was nearly as good as the best private technology. Implementation of a better technology was limited only by the willingness and ability of farmers to adopt it. American farmers were the best educated in the world, a consequence of well-

funded public educational programs in agriculture at the high school and college levels. And, American technologies were disseminated through university extension programs and promoted by private agribusinesses, to ensure that American farmers remained on the cutting edge of productivity. So American farmers were the clear technological leaders of the world.

American farmers also had ready access to the capital needed to support large-scale, specialized, mechanized, agricultural production systems. The federal government was committed to ensuring access to adequate investment funds for potentially profitable ventures proposed by farmers with proven business skills – whether for costly complements of new machinery, or new buildings and equipment for confinement animal feeding operations. Investment tax credits and accelerated depreciation of capital investments, further subsidized adoption of capital-intensive farming methods. As American farmers invested in these large-scale, industrial-like production systems, each farmer could produce more at a lower cost, and thus, became increasingly competitive in world markets.

In addition, the U.S. has natural advantages with climatic growing conditions that are favorable for most crops traded in global markets and with some of the most productive soils in the world. The highly industrialized U.S. economy also provides farmers with the transportation, marketing, and financial infrastructure needed for efficient interregional and international trade. Thus, American farmers became the most efficient producers of agricultural commodities in the world.

But, the economic rules of farming have changed. Our climate, soils, and infrastructure have not changed significantly, at least not so much as to create a competitive disadvantage for agriculture. Today, however, agribusiness corporations “own” many of the cutting-edge agricultural technologies. Our public institutions seem to have lost their commitment to producing truly “public information.” Instead, they are forming research partnerships and joint ventures with private corporations, which ensures that the most significant discoveries will be “commercialized” under private patents and copyrights. Research that might empower the individual farmer to “manage” their operation more efficiently, so they might enhance productivity by reducing their reliance on costly inputs, is pursued only rarely in our public institutions. Such research can't be “commercialized” – meaning there is no potential profit in it for corporate investors. Research instead is focused on technologies that can be controlled by agribusiness, technologies designed to control the production process, to simplify management, and to make farmers more dependent on purchased inputs. A prime example is “Roundup Ready” soybeans, developed and owned by Monsanto, which have quickly captured roughly half of the U.S. soybean seed market. As one farmer said at a recent meeting in Minnesota: “Any fool can raise a good crop of soybeans using the Roundup Ready program.” Soybean farmers now “buy their technology,” through tech fees, and get their production information from their seed and pesticide sales rep. Farmers suspected of saving seeds from one crop to plant the next have been sued for breach of contract by Monsanto. As future technologies are developed, still more university researchers

will be working on industry supported projects, extension educators will be increasingly “out of the loop,” and there will be less and less need to be “educated to farm.”

The agribusiness corporations will be increasingly in control of decisions regarding how much of each crop is produced, where it is produced, and by whom. Agribusiness will also be in a position to control many of the decisions regarding who has access to capital for investment in agricultural technologies and who does not. The federal government has reduced its commitment to providing investment capital for American farmers. Increasingly, federally supported farm loans are evaluated by the same criteria as by any other business loan, and increasingly are made in partnership with private lenders. In fact, the House version of the new Farm Bill would eliminate all direct federal loans to farmers. There seems to be little sense of any “public service” dimension of farming that would justify special consideration of agriculture in lending decisions.

Increasingly, agricultural lending decisions are being linked with contractual arrangements between producers and agribusiness firms. Contract production in the poultry industry provides the basic model that pork, dairy, and eventually, crop production seems destined to follow. The producer provides the land, labor, buildings, and equipment. The contractor provides the live animals or seed stock, the technology, production inputs, and markets, and makes all of the significant management decisions. The producer takes the risk associated with the fixed investment, including waste disposal, but the contractor takes most of the production and market risks. Producers earn a minimal return on their investment, if they are lucky, and get some minimum wage for their labor. But, the contractor earns the return to management and takes virtually all the profit. Quite logically, contract producers can't expect to earn much, because they don't really do much.

Whenever contracting becomes dominant in an agricultural sector, such as poultry and hog production, it becomes difficult for producers to secure an investment loan without a contract that ensures a market for whatever is to be produced. Thus, a contractual relationship with a corporation – under which the corporation provides the production technology, management expertise, and market – becomes a precondition to securing the necessary investment capital. Thus, the contractor, in effect, determines who does and does not have access to agricultural capital in those sectors. Variations of this same basic model eventually will be implemented for crop production, by suppliers of seeds, pesticides, fertilizers, and other inputs, as they use their patents for genetically modified crops to gain control of crop production.

The economic rules of farming have changed. The competitiveness of American agriculture is no longer determined by its educated farmers, its land, its infrastructure, or its climate. The competitiveness of American agriculture is increasingly determined in the boardrooms of the multinational agribusiness corporations.

The corporations now decide what types of research will be funded and what types of research will be ignored. If they can't “commercialize” the results, they don't support the research, and it isn't done. The corporations decide which farmers get to use their

technology and which farmers don't – and the competition is not just among American farmers. Education and training of farmers doesn't matter much when “any fool can grow a good crop.” And increasingly, the corporations will decide which farmers get financing and which farmers don't – and the competition will not be just among American farmers. If a farmer resists contracting, insists on making their own decisions, on managing their own operations, they will have a difficult time finding funding. In essence, the corporations are now making the rules of farming.

Increasingly, the multinational agribusiness corporations are finding it more profitable to apply their technologies and to lure capital investment to countries other than the United States. American farmers can't compete in world markets because agribusiness corporations increasing control global agriculture and they are finding it more profitable to invest their resources elsewhere. The economic rules of farming have changed. In his book, “The End of Agriculture in the American Portfolio,” economist Steven Blank foresees a future time when the U.S. will not only lose its export markets, but also will import nearly all of its foodstuffs from other countries. He argues that the costs of land and labor in the U.S. will be too high for American farmers to be competitive in a global food economy. We have higher valued alternative uses of our land and labor than do most other countries of the world, which will price them too high for agricultural uses.

First, he says, American farmers will be forced to abandon production of basic agricultural commodities – corn, soybeans, hogs, cattle, cotton, rice, etc. – in favor of high-investment, high-risk crops – such as wine grapes, berries, organic vegetables, etc. High-risk, high-return enterprises will be the last agricultural alternatives offering farmers any hope of realizing profits from employing high cost land and labor. However, high paying jobs and increasing affluence will allow increasing numbers of people to escape from the cities in search of a quieter, safer, healthier lifestyle in the countryside. As land prices and labor costs continue to rise, agribusiness eventually will abandon America completely because they will be able to employ their management and capital more profitably in other countries.

Corporations have no sense of citizenship. Once corporate ownership becomes separated from management, through public stock offerings, a corporation becomes incapable of pursuing any objectives other than maximum profit and growth – its stockholders will accept nothing less. Corporations are not human; they have no heart or soul. Thus, corporations have no sentimental attachment to any particular parcel of land, community, geographic region, or even to a nation. If economic costs of production are less in some country other than in the US, as they almost certainly will be, then that's where America's food will be produced. Agricultural technology, capital, and management can be shifted easily from America to other countries around the globe – as we have seen in the production of other industrial goods.

However, Blank claims we should not be concerned because Americans still will be well fed. This is all a quite logical result of the working of a free market economy, he says. It simply will be more efficient in the future to produce America's food elsewhere on the globe. In fact, America's transition out of agriculture is a sign of our national

economic progress. Agriculture is any nation's first step toward economic development – abandoning hunting and gathering for a more efficient means of providing food and fiber. However, agriculture requires only low-skilled, manual labor and few management skills, and thus, farming is not capable of sustaining economic progress over time. Manufacturing represents a natural evolution from unskilled labor to skilled labor, to mechanization, and management of large, complex industrial systems of production. Over the past two centuries, industrialization has been the mark of economic progress as nations move from agriculture to manufacturing.

However, as we enter the 21st century, America is moving beyond industrialization – to a new post-industrial era of economic development. We already have seen the foundation of the US economy shift from manufacturing to the service sector of the economy. Some service jobs tend to be low-skill and low paying, such as fast food and electronic data entry. However, many service positions are high-skill office work, requiring high levels of education and training – such as finance, brokerage, marketing, communications, education, research, systems design, and all sorts of consulting. Such jobs are more productive and command higher salaries than do manufacturing jobs. In the 21st century, America will become part of the “new economy” – new information systems will allow corporations in the “more advanced” nations to create, manage, and control the agricultural, manufacturing, and service sectors of the economies of other nations. Those who create, manage, and control things inevitably reap greater economic benefits than to those who actually produce, manufacture, and do things. Agriculture and manufacturing are but stepping stones to higher levels of economic development. Blank contends that it's simply time for America to abandon agriculture and move ahead to its next stage of economic development.

Regardless of whether Blank is right or wrong about the ultimate abandonment of American agriculture, his arguments are economically rational and sound. Rising costs of land and labor will make it increasingly difficult for American farmers to remain competitive in a world market for basic commodities, in which they no longer have competitive advantages in technology, management skills, or access to capital.

Implications for Midwest Agriculture

The Midwest is perhaps more vulnerable than any other region of the U.S. to loss of global agricultural competitiveness. The Midwest is more dependent than any other region on basic agricultural commodities that are more vulnerable to loss of export markets. The Midwest is not a big producer of wine grapes, tree fruits, organic vegetables, or other “high-value” crops. Wheat, soybeans, corn, and cattle would seem to top the list of “low-value” commodities that can be produced more efficiently elsewhere in the world. As new biological technologies increase corporate control of agriculture and “dumb-down” production processes, and as land costs continue to rise, these commodities would seem most vulnerable to competition from farmers elsewhere. Loss of competitiveness in feed grain production and increasing environmental regulations would seem the greatest long term threats to the competitiveness in pork and poultry production – both of which are important in the Midwest.

Corporate contracting is making major inroads into the Midwest – making Midwest agriculture increasingly vulnerable to eventual abandonment. The large-scale contract hog operators have openly threatened to take their production operations to Mexico or South America, if they continue to be confronted with costly environmental regulations in the U.S. Environmental problems associated with large-scale poultry feeding operations are less than for hogs, but only because poultry creates less odor – their threats to water quality being very similar. Even if the environmental problems of “animal factories” could be addressed, the negative impacts of corporate agriculture on market access for independent family farmers, and the consequent social and economic impacts on rural communities, cannot. The threats that agribusiness corporations will take their large-scale confinement animal feeding operations out of the Midwest, and out of the U.S., cannot be lightly dismissed. They will never be welcome in rural America, and thus, may very well choose to locate in countries where rural people have less political power and fewer economic options.

Midwestern agriculture is also more reliant on government programs than are other major regions of the U.S. Certainly, elimination of government programs for crops important to other regions, such as cotton, rice, sugar, peanuts, and tobacco, would leave farmers in those regions highly vulnerable to lower cost competition from farmers in other countries. However, no region of the country is more vulnerable to complete elimination of government programs than is the Midwest. Imagine what the financial conditions of Midwest agriculture would be today if there had been no government programs for wheat, corn, and soybeans over the past five years. That image might provide a fairly accurate picture of Midwest agriculture in the future.

Why should we worry about elimination of government farm programs? After all, the House has already passed their version of a new farm bill, which would continue the generous farm subsidy payments of the past five years. The counter-cyclical payment provision of the new bill would virtually duplicate the annual “emergency” payments of the past four years. In addition, they have written in a \$1billion-plus direct subsidy to large confinement animal feeding under the disguise of an expanded Environmental Quality Enhancement Program – to subsidize clean up of waste from “animal factories.” The bill also increases the ceiling for payment limitations to ensure that large producers get a proportionately large space at the “public trough.” So, it might appear that the continuing taxpayer's subsidization of America's competition in world commodity markets is secure.

However, the Senate has a different vision for the new farm bill. Senator Harkin's Conservation Security Bill places far more emphasis on environmental protection and resource conservation issues. It represents a clear attempt to separate even further government payments from commodity production – even from the “historic” base acres that determine current program payments. The Senate bill would emphasize rewarding farmers for conserving soil and protecting the environment rather than for having produced specific program crops. It would further limit individual program payments, targeting benefits more clearly to individual farmers than to agricultural production. The

Senate bill would retain direct, government loans to smaller family farms and beginning farmers. It would also attempt to maintain market access for independent farmers by ensuring the competitiveness of domestic markets.

The agricultural establishment supports the House bill because it continues to support large-scale, corporate agriculture. Thus, the House version quite likely will dominate the ultimate version of the new farm bill. However, the different vision for the future of American agriculture reflected in the Senate bill will not go away. Ultimately, we must address the ecological and social implications of our industrial system of agriculture. Eventually, our elected representatives will be forced to stop taking money from less-affluent taxpayers and giving it to more-affluent land owners and agribusiness corporations. If government programs for agriculture are to continue, they eventually will have to be targeted to using public dollars to secure truly “public benefits,” such as environmental quality and thriving rural communities, rather than padding the pockets of corporate investors.

The primary advantage of the Midwest relative to agriculture in other regions might seem to be lower land and labor costs. However, these are the primary factors that have allowed Midwest agriculture to remain dependent on low-value, commodity production. Farmers in other regions, particularly those on the West Coast and in the Northeast, have already made the transition to high-value crops. They have been forced to change by rising land and labor costs in urbanizing areas.

Today, more than one-third of all U.S. farmers live in “metropolitan” areas, as defined by the Census Bureau, and these farmers produce about one-fourth of total U.S. agricultural output. As “urban sprawl” continues to consume the countryside, these percentages will continue to grow. These urbanizing areas are less prominent in the Midwest than most other regions. Farmers currently on the urban fringe may be producing products for niche markets, such as organic vegetables, or for mass markets, such as wine grapes. But they invariably are producing something with a high potential value per acre of land and per dollar of capital invested – even if at a greater risk. If Midwest farmers eventually are forced to abandon low-value commodities, they may well find them at a competitive disadvantage relative to producers in other areas who have already transitioned to higher-valued, higher-risk enterprises.

These new, high-value, farmers are finding ways to remain economically viable also by addressing consumers' ecological and social concerns. These issues tend to be even more critical among those who are living among “urban” farms. A growing number of consumers are concerned about the impacts of agriculture on the water quality, soil productivity, and the ecological health of the land. Increasingly, concerns for food safety, health, and nutrition are directly linked to an industrial agricultural system that focuses more on profits than on people. Consumers also are concerned about the impacts of agricultural industrialization on the welfare of animals, but even more so, about the welfare of farm families and of people of rural communities. These new farmers' products may be labeled as organically grown, hormone and antibiotic free, free range or pasture raised, pesticide-free, or simply locally grown by local

farmers. Most are marketing direct by farmers to customers who really do care where their food comes from and how it is produced – not just whether it is quick, convenient, and cheap.

The American Farm of the Future

New, innovative approaches to farming certainly are not limited to those farming in the urban fringe. Thousands of farmers all across the country, and around the world, are abandoning the industrial model of agriculture in search of a more sustainable agriculture.¹ They realize that an industrial agriculture quite simply is not sustainable over the long run. The industrial paradigm of farming, characterized by specialization, standardization, and centralization of control, creates inherent conflicts with the natural and social environment upon which agricultural productivity must ultimately depend. It is neither ecologically sound nor socially responsible, and thus, is not economically viable over time.

These new American farmers are succeeding by exploiting the weaknesses and excesses inherent in industrial farming. These new farmers rely on the advantages of diversity, individuality, and decentralized networks of interdependent decision-makers. They are realizing the opportunities that industrial agriculture has ignored, and they are solving the problems that industrial agriculture has created.

These new farmers focus on working with nature rather than against it. The natural resource base that ultimately must sustain productivity is inherently diverse. Industrial systems have had to *bend nature* – to augment, supplement, alter, and force it -- to create an illusion of conformity out of diversity in order to meet the demands of large-scale, industrial production. The ecological problems arising from industrialization are symptoms of natural resources being used in ways that are inherently degrading to their productivity. The new ways of farming utilize the inherently productive capacity of a diverse natural resource base, rather than wasting time and money trying to force nature to conform. The new farmers rely on harvested solar energy rather than mined fossil fuels, and thus, reduce their reliance on external purchased inputs. They reduce costs and increase profits while protecting the natural environment and supporting their local communities.

These new farmers focus on providing value to their customers. They realize that each of us value things differently, as consumers, because we have different needs and different tastes and preferences. Industrial methods are efficient only if large-numbers of us are willing to settle for the same basic goods and services – so they can be mass-produced. Customers have to be persuaded, coerced, and bribed to buy the same basic things rather than the things they really want. That's why we pay more to those who package and advertise food than we pay to the farmers who produce the food. New farmers tailor their products to conform to unique needs and preferences of individual customers. Many of their customers value the ecological and socially responsible ways in which their food is produced as much as the physical quality of the food.

New farmers focus on what *they* can do best. They realize that we are all different -- as producers as well as consumers. We have widely diverse skills, abilities, and aptitudes. Industrialization has had to *bend people* -- train, bribe, and coerce -- to make them behave as coordinated parts of one big machine rather than as fundamentally different human beings. Many problems of today's society are symptoms of people being used by industrial systems in ways that are inherently degrading to our uniquely human productive capacities. New ways of farming provide opportunities for farmers and others to use their unique capacities to be productive rather than attempt to conform to systems of production that just don't fit.

These new farmers link people, purpose, and place. By linking their unique productive capacities with unique sets of natural resources to serve the needs and wants of unique groups of customers they create unique systems for meeting human needs that cannot be industrialized. The more unique their combinations of person, purpose, and place; the more sustainable will be the value to customers and producers alike. New farmers work together, share information, and cooperate rather than compete. They don't see customers as markets to be exploited, but relationships to be nurtured. These new ways of thinking and farming create opportunities for farmers, as people, to form positive, productive relationships with each other, with their customers, and with the earth.

This new kind of farming is not the first step beyond hunting and gathering; it is the next step beyond industrialization. Sustainable farming represents agriculture's entry into the "new economy."

Implications for Midwest Agricultural Lenders

I am not "predicting" the end of American agriculture nor the end of farming in the Midwest. I realize that economists can't forecast the future with any reasonable degree of confidence, and I am no exception. However, logical economic analysis indicates that midwestern agriculture is facing some serious challenges that none of us can afford to ignore. Nowhere are the challenges more relevant, or the implications potentially more important, than in agricultural lending in the Midwest.

Agriculture remains the heart of the overall economies of most states in the midwestern region. At least as important, agriculture remains the primary reason for existence for many rural midwestern communities. In spite of the growing importance of other sectors of the economy, agriculture, including off-farm agribusiness in the food and fiber systems, still accounts for 20 percent or more of total economic activity for most states in the region. In the Great Plains states of Kansas, Nebraska, and North and South Dakota, farm production and food processing account for about one-fifth of total regional economic output and almost one-tenth of regional employment. Understandably, the Midwest also claims a large share of the remaining agricultural dependent counties in the U.S. -- meaning more than 20 percent of total employment is in "farming." So, the future of agriculture is critically important to the future of the Midwest.

Increasingly, off-farm processing, distribution, and marketing, and manufacturing of agricultural inputs, overshadow farming in terms to contribution of agriculture to both economic activity and profits. In recent years, farming has accounted for less than ten-percent of the retail value of food, with the rest is attributed to the input and marketing sectors. In times of surplus production and low farm prices, most agricultural input and marketing firms tend to prosper because high levels of production mean strong demand for their services – notable exceptions being manufacturers of farm machinery and equipment. Low prices for farm commodities also mean cheaper raw materials for processors and marketers. So, low prices for farm commodities brought on by over-supply can mean relative prosperity for the overall agricultural economy. However, an agricultural recession resulting from loss of markets would mean lower volume and less profit spanning from input supply through wholesaling, thus having a far greater impact on the overall midwestern economy than does a recession caused by oversupply.

The actions of agricultural lenders may be important in shaping the future of midwestern agriculture. Currently, the industrialization of American agriculture is being promoted by agricultural lenders who insist that farmers follow industrial farming methods – specialization in specific enterprises, standardized production systems, and large-scale centralized control – in order to qualify for loans. An industrial agriculture is inherently tied to production of basic, low-value, agriculture commodities, in which the U.S. is least likely to maintain a global competitive advantage. Integration of farmers into value-adding “food chains” does not free the “farmer” from being a producer of low-value, raw material to which someone else will add value and someone else will reap the profit. And successful “value added” sectors ultimately will be controlled by large corporations, not farmers or even groups of farmers.

The corporatization of American agriculture is being promoted by those agricultural lenders who insist that farmers have contracts or business relationships with agribusiness corporations in order to qualify for loans. More than 30 percent of all U.S. agricultural production is already produced under corporate contracts. As corporations gain increasing control, American agriculture becomes increasingly vulnerable to eventual abandonment.

American farmers will continue to plant another crop or place another batch of cattle on feed for as long as they can borrow enough money to do it. It doesn't really matter all that much to most if they could make more money doing something else or if they could make more farming in another country. As long as the government sends them enough money to buy seed and fertilizer they are going to grow something, even if they are “free not to farm,” if they choose. They are committed to farming in America. Corporations have no such commitment to America and certainly not to farming in America. They will take the government check and invest it in farming in South America, or wherever in the world they can make the most money. It doesn't matter if lower costs are the result of exploitation of the land or the people of another country. The public corporation is the epitome of economic rationality. It has no heart, it has no soul, and it has no commitment to country. Lenders who demand such complete economic rationality from their borrowers may be supporting the ultimate abandonment of American agriculture.

No one can possibly know the future with certainty. Thus, we simply cannot afford to bet the future of American agriculture, and ultimate the future of humanity, on any one vision of the future. Perhaps an industrial agriculture can be sustained and is capable of sustaining humanity. Perhaps there are no limits to growth. Perhaps we can find a replacement for any finite resource we use up and maybe we can clean up any mess that we might make. But, what happens if there are limits to growth, if we can't replace the things we are using up, and can't clean up the messes we are making? Our current industrial systems of farming can be sustained perhaps another fifty years before we have to get serious about finding fundamentally new resources and actually cleaning up our messes. By then, we will have roughly twice as many people to feed worldwide, so it only seems prudent that we have an alternative plan, just in case we run out of something or mess up something we can fix. We simply cannot afford to bet the future of humanity on any one vision of the future.

Sustainable agriculture offers an alternative vision. It seeks to work in harmony with nature – to restore, renew, regenerate, and sustain the productivity of the natural environment. A truly sustainable agriculture would support humanity from the inflow of solar energy, with enough surpluses to sustain the integrity of the resource base. A truly sustainable agriculture would empower people to enhance their social and ethical quality of life, thus, eliminating their need for continual economic exploitation of the earth and of each other. A sustainable agriculture is based on the belief that there are fundamental laws of nature, including human nature that we humans violate only at our own peril. We have perhaps a fifty-year window of opportunity, at most, during which to learn to farm sustainably. What if we develop a truly sustainable agriculture and find out later that we don't really need it? What will we have lost?

I am not suggesting that agricultural lenders in the Midwest somehow force farmers to farm more sustainably in order to qualify for loans. I am simply suggesting that thousands of Midwest farmers are already trying to find ways to farm sustainably, and these farmers sometimes need to borrow money to finance their efforts. These farmers are trying to build fundamentally different farming operations than are conventional commodity producers. They are more likely to be trying to reduce their reliance on off-farm inputs through more intensive management of on-farm resources. They are more likely to be trying to develop their own marketing channels, to marketing direct to customers, to market in the niches, rather than sell bulk commodities to processors. They are more likely to be involved with alternative enterprises – something other than corn, soybeans, wheat, cattle, or hogs. And, they are more likely to be working together with other farmers and with their customers to develop profitable relationships. These farmers are different, but they deserve a chance to succeed. They should not be turned down for a loan just because they are proposing something different.

These sustainable farmers are not in direct competition with other farmers around the world. They are not in some exploitative “race to the bottom” to see who can produce the cheapest by exploiting the earth and its people. Sustainable food systems will be local systems wherever local needs can be met using local resources – regional and

national, only when needs cannot be met locally. Sustainability implies a responsibility of nations to protect their people and their resources from exploitation through appropriate international trade policies. Sustainability implies that nations have both rights and responsibilities to maintain some level of food security – that they not abandon agriculture. A sustainable American agriculture would require that America's farmers produce “public services” as well as “private goods.” A sustainable agriculture must protect the natural environment, contribute to civil society, while maintaining national food security. Sustainable agriculture is not just a matter of economics. Perhaps in a sustainable society, America's farmers won't feed the world, but the people of the world will be well fed. Perhaps, America's farmers won't export a third, or even a tenth, of their production, but the American food and farming system would be secure – for the long run benefit of farmers, rural residents, and consumers alike. Perhaps it is not all that important whether U.S. farmers are the “most efficient” farmers in the world, but instead that they lead the way toward a more sustainable future.

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¹For 50 real life examples, see “The New American Farmer – Profiles in Agricultural Innovation,” the SARE Program, USDA, Washington DC. (\$10 US – call: 802-656-0484 or e-mail: sanpubs@uvm.edu , also available free on line at <http://www.sare.org/publications/naf.htm>