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**The Role of Farmers
in the Future Economy**

BRETT FAIRBAIRN

February 2003

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participation



UNIVERSITY OF
SASKATCHEWAN

Centre for the Study
of Co-operatives

The Role of Farmers in the Future Economy

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Centre for the Study of
CO-OPERATIVES



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Centre for the Study of Co-operatives
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Introduction

THE TOPIC OF THIS BOOKLET, “The Role of Farmers in the Future Economy,” is connected with some new research and new thinking a group of academic colleagues have been doing at the university.¹ This is a critical topic, which every farmer and every rural organization needs to think about. The world isn’t what it was, and farmers need strong voices and strong representation if they are not going to get overlooked in today’s economy and politics. Our economy has been going through a fundamental transformation since the 1970s. The environment is changing: the economic environment, the natural environment, the social and political environment. But the internal, structural changes within the agricultural sector have only just begun to become apparent. There is more to come. And it is important that farmers and rural people think about the issues and guide the change process as much as they can in their own interests.

Many of today’s farmers may not recognize what farming is likely to become in the future. It will be in some ways a totally different industry. Change is not necessarily bad, but it is important to work with change to minimize the bad and develop the good.

There is some irony in a historian contemplating the future, and a university professor writing about agriculture. In important ways, farmers know agriculture better than a university professor ever can. And that’s the first message: Be skeptical. Think critically. Do not accept things just because university professors, government officials, or representatives of corporations say them. But equally, do not disbelieve things just because of who says them, either. Instead: think, talk, seek out new ideas, and acquire

the information necessary to make informed decisions. The policy and education processes of organizations such as the Agricultural Producers Association of Saskatchewan are critically important, but the same study, reflection, and thinking must be taken to ever-wider groups of producers. Getting together by commodity is not enough: it leads to too specialized a focus, and it enables other participants in agriculture to use divide-and-conquer tactics against farmers.

Unsustainability, Transformations, and Commodity Agriculture

ONE HUNDRED YEARS AGO, in the early twentieth century prior to the First World War, there was a dust bowl in southwestern Saskatchewan and southeastern Alberta. This area had been settled for less than a generation, and already it was afflicted by drought. Crops did not come up, or failed. Soil blew. Settlers abandoned their homesteads. Prosperous little towns, promoted by boosters with grand dreams, decayed into ghost towns. The Palliser Triangle region was, as historian David C. Jones has written, an “Empire of Dust.”²

This story highlights three points.

First, the original pattern of Prairie settlement and agricultural development was not sustainable, particularly in the driest areas. Governments and their advisors had laid out a land system, a plan for a regional wheat economy, and a transportation system that were economically and environmentally unsustainable. This began to become apparent within decades of non-Aboriginal settlement. We have been living, ever since, with the ongoing adjustments of that original settlement system.

Second, expert advice from universities and government officials contributed to the catastrophe. Agricultural experts, for example, advised

farmers in the dry areas to practice a technique they called the “dust mulch.” Farmers were told to work their fallow land over and over, breaking the soil up and pulverizing it into dust. The theory was that this would form a protective layer that would conserve deeper moisture. A fine pseudoscientific theory: it is easy to imagine the results. The moral of the story is, be suspicious of experts. They may know things that farmers need to know ... but the one who is responsible for the land is the one who has to make the decisions and live with the consequences.

Third, twentieth-century agriculture was in a constant process of transformation. The history of modern agriculture is a history of continuous change. Every generation has struggled with learning how to farm under entirely new economic and scientific conditions. What we learn from the past is that the present will not last. Whatever you see around you today is *not* how things will be in twenty years.

Take, for example, the idea of agricultural commodity specialization.

When settlers first broke the land, the farms they built up were highly flexible and diversified operations. I think back to my grandparents’ farms, established in the teens and twenties. They had multiple crops—a different crop on every quarter, it seemed—as well as many kinds of livestock and a huge vegetable garden. There were horses, cattle, chickens, guinea hens; there were eggs to sell, as well as milk and butter. We talk today about diversification, but those early homesteads were diversified beyond anything we’ve seen since. They also included many subsistence or noncommercial, nonmarket activities, which made them hard to incorporate into Saskatchewan’s developing economy.

Farmers learned how to specialize in the production of a few basic commodities. They learned this, for the most part, between the 1920s and the 1960s. They were *taught* to specialize in commodities, with government studies, university research, corporate and marketing-board advice, all guiding them to the same conclusion. Where wheat had once been merely the largest cash crop, wheat, or cattle, became more like the exclusive product of many farms.

It is important to stress that what farmers produced were *commodities*. A commodity is a generic or largely undifferentiated product, something that can be aggregated between producers, transported long distances in bulk, and can serve as an input into industrial processes, being turned into other things before it is used. Farmers on the Prairies learned and were taught to identify themselves with commodities.

So we have marketing boards that regulate or handle commodities, we have producer organizations that define themselves by their commodities, and we have discussions of agriculture that always start with commodities.

We have, in short, a commodity-specialization mentality. This, too, is unsustainable. It's not as stupid as the dust mulch was, but it's rapidly becoming just as anachronistic. Agriculture is today going through another transformation, and the central point in that transformation is the decline of commodity-centred activities.

Specialization will remain. It is with us for good, and in many ways it will increase. Farms will become specialized in individual varieties of crops and animals, and individual stages of their production and marketing. But the products will less and less have the characteristics of commodities. This is a good thing for producers, because there isn't much future, for the majority of farmers, in producing simple commodities.

The problem with commodities is that, over long periods of time, their prices have tended downward, and the margins in producing and handling them have narrowed. We have tried to cope, in Saskatchewan, by producing more and more, having larger and larger farms, in order to make a living off those narrowing margins. Some of this will keep happening, but we seem to be reaching a breaking point.

It is a sobering exercise to graph the prices of commodities over long periods of time, corrected for inflation. Wheat, for example, traded at quite high prices in the mid-nineteenth century, but then declined as new producing areas such as the western US, Argentina, Canada, and Australia came on-stream, and as new technology such as railroads and steamships

moved things farther and faster. Prices went up during the First World War, during and after the Second World War, and in the 1970s, but otherwise the trend is down.

Much as we may bemoan US subsidies to their producers, the effect of those subsidies has been to make a bad situation worse, not to create a bad situation in the first place.

Generic commodities decline. We live in an economy where each new round of globalization, each new technology, each new trade or subsidy deal, seems to confirm that general pattern.

So what does this mean for the new economy, the new agriculture, and for farmers?

The New Economy

THE PHRASE “THE NEW ECONOMY” has been widely used in recent years, and is often associated with high-tech industries, dot-com companies, and recent stock-market bubbles. In fact, there is something much more fundamental occurring, which affects the internal structures and external linkages of all kinds of industries, whether they are in the information-technology business or other branches of the economy. This paper will not go into a lot of detail examining the new economy, but it is useful to hit some highlights.

First, the “old economy” was the pre-1970s industrial economy we all know reasonably well. This was an economy that stressed standardized processes, mass-market products, managerial efficiency, and clear, well-defined lines of authority and control within organizations and sectors. Commodity agriculture was part of this industrial economy, because it focussed on standardization, mass markets, and constant efforts to introduce or improve scientific management.

Some people refer to changes now occurring in agriculture as the “industrialization” of agriculture, but that is a misnomer. The industrialization of agriculture happened in the mid-twentieth century. What we are going to see in agriculture, as in the larger economy, is the “postindustrialization” of economic activities.

In the wider society, the new economy has a number of important features, of which we will examine four.

First—of course—is the increased importance of knowledge and information. But this does not just mean that *more* knowledge or information is required, though that may also be true. The key is that knowledge and information become the organizing principles of businesses and industries. The internal structure of firms changes, their planning and relationships with other firms change, according to a focus on information. Companies increasingly outsource physical production processes, leaving the core of the company as an entity that specializes in co-ordination, research, design, quality control, and so on—information, in other words. Power and wealth in the new economy can be concentrated and captured where the knowledge is, not where the product is. This is a new way of thinking, a new way of organizing economies and businesses.

Second, and frequently remarked upon, is the growth of service industries. This too is connected to the new primacy of information. Where the period of industrialization was characterized by the growth of the industrial sector at the expense of the primary-production sector, the new period of postindustrialization sees the growth of the service sector at the expense of the others.

It is not surprising to notice that primary-production activities such as production agriculture lose, relatively speaking, in both transformations, the old as well as the new.

Third, the new economy is a network economy. Firms are not self-contained and monolithic. Through outsourcing, contracts, joint ventures, and the like, firms have fluid and flexible boundaries. Even internally they

may have become more fluid, with project units and work teams that have changing focusses and relationships. Fluidity and connectedness are key features of this economy. The firm is more like a network than an old organization; the relations among firms are more like a network. All the pieces are interdependent and specialized in things that can contribute to linkages and partnerships.

Fourth, and finally, the new economy is an economy of consumer choices, niches, and preferences. At least in well-off, developed countries, consumers are less interested in mass-market goods. They are less deferential to tradition and authority. They value choice for its own sake. They will make choices, sometimes regardless of what experts tell them is good for them. The new economy is moving from one with a crude, supply-push emphasis to something much more complicated, dynamic, and changeable. This is not to say the economy is more consumer driven. However, all businesses need to focus much more explicitly than in the past on changing consumer tastes and desires, on the ultimate end markets for products and services.

Although most of these observations are commonplace, what *does* the importance of knowledge, services, networks, and consumer preferences mean for agriculture?

The New Agriculture

DURING A NUMBER OF CONFERENCES and sessions about rural development over the years, I have heard rural people make passionate, sincere statements like the following:

“A farmer should be able to earn a living *farming*”—meaning that growing a crop or producing animals should be lucrative enough to support a household. Governments, it is argued, should ensure that prices make this possible.

Or, “It’s my job to *produce* the stuff. That’s what I know. That’s what I’m good at. I shouldn’t have to worry about it after it leaves the farm gate.”

These kinds of statements are powerful, and it is hard not to sympathize with the emotions, the pressures, the values and ideals that lie behind them.

But when you look at where agriculture is heading, you also have to conclude that these ways of thinking, at least in their pure form, are no longer useful in today’s agriculture. What farmers have to do to make a living, what they call farming, whether they have to worry about more than just production, are questions that are all up in the air right now.

Everyone has heard about adding value to things—perhaps so much so that we’re tired of talking about it. But the discussion of value-added is only part of a bigger set of structural changes in the economy. The reason value-added is an issue is because there are certain points in marketing chains where power and wealth can best be extracted. Every marketing chain runs from producers, through processors and distributors, to end users. Increasingly, for agricultural products, there is wealth and power in the middle of these chains that does not *necessarily* flow to the producers on one end or the consumers on the other.

The issue is simply that if producers are not satisfied with price or terms, or consumers are not satisfied with price or quality, they probably need somehow to become involved further up or down the value chain in order to secure their needs and interests. Vertical integration, or more generally speaking some kind of vertical co-ordination, is what is needed to achieve this.³

Right now, value chains related to agri-food projects are being transformed and reorganized in new ways. These changes are not necessarily to the advantage of producers. If producers want to be involved, they will have to make a concerted effort.

One of the first industries to be reorganized on the new model, or one

version of the new model, was the chicken industry in the United States. During a recent conversation at a conference, a southern US chicken producer described his role in the industry in such a way that it looks nothing like our current idea of what it means to be a farmer.

Briefly, he received a given genetic stock, supplied by the processing company, and signed contracts to raise the stock in specified ways, and deliver it with specified characteristics at a predetermined date. While the company was guaranteeing to take the product, it was also requiring that it have exactly the characteristics required for them to maximize the return from their own processing and marketing operations. The farmer bore the risk if something happened that made him unable to meet the terms of the contract. Similarly, the farmer was required to meet environmental standards on his buildings, and company inspectors could dictate to him what improvements he had to pay for to bring his ventilation or other systems up to the company's standards. The company also changed the prices and terms as it saw fit, more or less unilaterally.

It is not surprising, then, that some people characterize farmers as becoming more like employees than independent operators. Perhaps a truer analogy is that they will be like owners of a store franchise. Buying a farm will be like buying a McDonald's franchise: it's yours to run, within the rules set by the bigger company.

Stories like this are all too common. The point is that this is one example of how vertical co-ordination will be achieved. *Every* sector of agriculture will see some similar kind of reorganization and rebalancing of roles among producers, processors, and consumers. The only question concerns exactly what kind of rebalancing this will be.

For years, people have talked about the dangers of corporate farms. But corporations do not need to own the farm in order to have the control and profit that they seek. Farming land is indeed probably best left to farmers who are close to and have individual, local knowledge of their land and animals. The real danger is that farmers will lose control *without* losing their land.

Production agriculture is a unique industry. It is almost the last sector of the economy where small-to-medium-sized enterprises predominate. Where manufacturing and banking are dominated by huge corporations and multinationals, and retailing by chains and franchises, we still have tens of thousands of more or less independent farmers. The reason for this is that farmers have unique local knowledge of their land and practices; and the unique strength, in many cases, of farm enterprises that are integrated with and supported by homes and households and families located on the land. No distant corporate head office could be as flexible and adaptable as the local farm-family unit. This suggests that farmers will continue to exist in the new agriculture, and will not be replaced by corporations or machines. However, none of this says that farmers will *prosper*. It is quite possible to retain tens of thousands of farmers on the land, eking out an existence, while the real power and profits go to others. Indeed, this seems a reasonable description of where we are now. Contractual relationships between producers and processors will not necessarily make this trend better, unless the underlying issues of control and bargaining power are taken into account.

As contractual agreements of many kinds become widespread in agriculture, the relations between producers and processors will continue to change. It is common, for example, for contract prices to be based on market prices. But as contracts grow, markets shrink. At some point, the quantity of products that flows under contracts exceeds the quantity that goes through open markets; some branches of agriculture have already reached this point. So what happens when there is no longer a meaningful market to provide a price yardstick for contracts? Very likely, as markets decline in significance, the importance of bargaining power increases. The terms of contracts will inevitably be dictated by the relative power positions of processing companies and producers. All else being equal, this situation will be disadvantageous to farmers.

Even in cases where farmers are not exploited because of contractual dependency, the new agriculture will pose unique challenges for them.

There is a cost associated with searching out deals from suppliers and marketers, with negotiating and monitoring contracts. Producers will be hard-pressed to deal with these transaction costs, and they will seek ways to reduce the time, effort, and risk associated with the new environment. The new agriculture, like the new economy generally, will be a *network* economy, and farmers will have to learn to function as parts of networks.⁴

So what can farmers do about it? There are three, or perhaps four, possibilities.

First, farmers can demand that governments regulate the industry to protect their autonomy and their interests. This is a possible solution, though limited by the fact that the farm voice is currently fragmented and that farmers make up only a couple of percent of the whole electorate and population. The days when agriculture could demand special treatment compared to other industries are perhaps past.

Second, farmers can band together to support each other and bargain with processors and middlemen. Bargaining associations play important roles in a number of European countries, and in some cases, in the US.⁵

Third, farmers can acquire ownership and control in the processing and handling industries. By deriving income from these activities, and by exerting control over policy, they can prevent exploitation and keep themselves in business. This option means that farmers can preserve their autonomy by working in a group and giving some of it up. This third option is the reason for the popularity of New Generation Co-operatives in the mid-western United States, and perhaps soon in Canada, too.⁶

There is a reason why we have seen new kinds of co-ops emerging and being talked about. The old co-ops, the ones we're most familiar with in Saskatchewan agriculture, were designed to suit the old economy. They dealt in commodities. They dealt in spot markets. They maintained widespread, multipurpose assets and facilities. They concentrated on price more than on quality. Most of all, they were concentrated in, even limited to, those parts of the value chain that were close to farmers: farm supply and first-stage commodity handling.

New co-ops will be more specialized and more interlinked up and down the value chain. They will address specific consumer markets. They will stress quality, niches, and special characteristics of crops and animals. They will be based on tight, mutually beneficial contractual relationships with members. They will invest not only in physical facilities, but in intellectual capital. In short, the transition from old-farm co-ops to new ones will mirror the transformation of agriculture and of farms.⁷

That's three options: regulation, bargaining, new kinds of co-ops. The fourth option is for farmers to simply go with the flow and allow the trends in agriculture to continue. That direction leads to the US chicken industry, which is not in all ways undesirable. It requires the least investment and the least common effort by farmers.

The world's population is growing, and surely, as world incomes rise and become more equitable, the demand for food will increase. That is indeed something to think about. However, there are also contrary trends: as countries develop, one of the first things they learn how to do is develop their own agriculture. We have been talking for two generations about feeding a hungry world, and so far what has happened is that some of the countries we thought we would be feeding are feeding themselves. It seems that shipping commodities and generic foodstuffs around the world will not be the salvation of Prairie agriculture, even with rising world food consumption.

The New Farmer

THE NEW FARMER, LIKE THE NEW ECONOMY, will have to be more knowledgeable and information-savvy, more networked and interlinked than before, and certainly more vertically co-ordinated along the value chain. These characteristics run counter to some well-entrenched attitudes about what farming is.

Michael Boehlje has commented:

Farmers have generally been eager to try new hybrids, new chemicals, new tillage practices, new feeding regimes and new equipment, but new ways of doing business have met with more resistance, possibly because they change relationships and frequently substitute interdependence for independence in the decision-making process.⁸

As in all other human affairs, some will be early adopters of the new thinking, and others will be late. Following is another comment from a conference participant, this one from Bob Church of the University of Calgary, who is also a ranch owner.

You have to ask, “What business are you in?” Farmers facilitate the conversion of water, sunlight, and soil into marketable biomass. Farming is “sustainable biomass production.” Producers have to look imaginatively at the “uses of biomass”—what biomass can be stewarded to produce, and what has value or is desired by someone. You have to produce what sells, instead of selling what you produce.⁹

That, in a nutshell, is the new agriculture and the producer’s role.

A farmer, in this view, is a manager of biomass resources: of soil, water, land, and of the plants and animals upon it. The farmer is an entrepreneur who finds market niches she or he can fill, using these biomass inputs. Farming *begins* with marketing, instead of ending with it. Markets might not involve normal food products: it might be entertainment, pharmaceuticals, construction materials, or tourism. What one farmer does may not be the same as what her or his neighbour does: they may often be in totally unrelated value chains.

Such a view implies farmers who have extensive knowledge and entrepreneurial skills. It also implies the fragmentation of the farm community

into many, fundamentally different kinds of farm units. Products and markets will not be what ties farmers together. Perhaps only the rural setting, and the common relationship to that land or biomass, is what will give farmers common interests.

The more science and entrepreneurship we see in agriculture, the more diverse and different farmers will become. Farming will be less tied together by science and markets. Lifestyles, values, and people's rural identities will become what defines agricultural communities. Some people have talked about putting the "culture" back into "agriculture." That's part of what they mean.

General agricultural organizations, which are not commodity-centred, can play an important role.

Farmers need to talk and think about the future of their industry. More than new techniques, what producers today need most is a new perspective on their livelihoods, a different outlook on agriculture, and a new framework for thinking about what it is they do. The new economy and the new agriculture are redefining what it means to be a farmer. The question is whether producers can get ahead of this trend and redefine themselves before the costs of adjustment are too great.

One important issue is whether farmers can or want to do all this as separate individuals and households, or whether they might not be better able to tackle the new challenges in groups. While some farmers will be early adopters and individual entrepreneurs, most will probably do better if they work together. There is room for all kinds of networks and associations: commodity groups, general-purpose farm organizations, bargaining associations, specialized co-operatives, and much more.

Above all else, the farmer in the new agriculture will be a networked farmer, interdependent and entrepreneurial, with a high capacity to find and evaluate information, and a high capacity to maintain mutually beneficial relationships with other farmers and with associations, co-ops, and companies. The time for producers to start building the kind of networks they want—is now.

Endnotes

1. See, especially, Murray Fulton and Kim Sanderson, "Co-operatives and Farmers in the New Agriculture," report prepared for the Co-operatives Secretariat, Agriculture and Agri-Food Canada, March 2002.
2. David C. Jones, *Empire of Dust: Settling and Abandoning the Prairie Dry Belt* (Edmonton: University of Alberta Press, 1987).
3. On vertical co-ordination, see Jill E. Hobbs and Linda M. Young, *Vertical Linkages in Agri-Food Supply Chains in Canada and the United States* (Ottawa: Agriculture and Agri-Food Canada, 2001).
4. See Mona Holmlund and Murray Fulton, *Networking for Success: Strategic Alliances in the New Agriculture* (Saskatoon: Centre for the Study of Co-operatives, University of Saskatchewan, 1999).
5. G. Hendrikse and J. Bijman, "On the Emergence of New Growers' Associations: Self-Selection versus Countervailing Power," *European Review of Agricultural Economics*, Special Issue on Contracting in Agriculture, forthcoming.
6. A. Harris, B. Stefanson, and M. Fulton, "New Generation Cooperatives and Cooperative Theory," *Journal of Cooperatives* 11 (1996): 15–28.
7. A point well made by Mike Cook at "Building the New Saskatchewan: A Conference for the Development of New Generation Co-operatives," Saskatoon, 26–27 January 2000; see also Fulton and Sanderson.
8. M. Boehlje, "Industrialization of Agriculture: What Are the Implications?" *Choices*, 4th Quarter (1996): 30–33.
9. Based on Church's presentation to "Building the New Saskatchewan: A Conference for the Development of New Generation Co-operatives," Saskatoon, 26–27 January 2000.

About the Centre

THE CENTRE FOR THE STUDY OF CO-OPERATIVES is an interdisciplinary teaching and research institution located on the University of Saskatchewan campus in Saskatoon. Contract partners in the co-operative sector include Credit Union Central of Saskatchewan, Federated Co-operatives Ltd., Concentra Financial, and The Co-operators. The centre is also supported by the Saskatchewan Ministry of Enterprise and Innovation and the University of Saskatchewan. The university not only houses our offices but provides in-kind contributions from a number of departments and units — Agricultural Economics, History, Management and Marketing, and Sociology, among others — as well as financial assistance with operations and nonsalary expenditures. We acknowledge with gratitude the ongoing support of all our sponsoring organizations.

The objectives of the Centre are:

- to develop and offer university courses that provide an understanding of co-operative theory, principles, developments, structures, and legislation;
- to undertake original research into co-operatives;
- to publish co-operative research, both that of the Centre staff and of other researchers; and
- to maintain a resource centre of materials that support the Centre's teaching and research functions.

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