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ECONOMIC DUALISM IN AMERICAN AGRICULTURE[1]

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ABSTRACT Renewed interest in agriculture by sociologists has led to an emphasis on structural analyses of rural America. Drawing upon the dual economy model, this paper proposes an alternative concept of the changing structure of agriculture in the United States. Two industrial sectors--the core and the periphery--are defined, and their relevance to agriculture is explored. Following Averitt, agriculture is an industry which historically has had a periphery-type orientation but is now undergoing encroachment from the core economy and partially from domination by the federal government. The research implications of the dual economy model for rural sociology are discussed.

Introduction

Averitt (1968) has conceptualized the American industrial structure as consisting of two distinct sectors: the core and periphery. The core (monopolistic) sector is dominated by large, diversified firms which often are vertically integrated and exist in highly concentrated markets. Core firms are usually oligopolistic and have considerable market power; i.e., they are able to set prices, restrict supply, and influence their competitors. Working conditions in the core are relatively good, wages are high because of the strength of unions, adequate benefits are provided, and, until recently, more job security existed than existed in other sectors of the economy. The periphery (competitive) sector is characterized by smaller firms which operate in relatively "competitive" markets. The competitive sector is characterized by low wages, poor working conditions, and a relatively high rate of unemployment and underemployment.

Much of the core economy was formed by the turn of the 20th century and has continued to expand its control through vertical integration and diversification. Although a precise historical analysis of the origins of the dualistic nature of the American industrial structure is still lacking, there seems to be some agreement that dualism is a feature of the tendency for uneven development within

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advanced capitalist societies. In other words, it assumes that one industrial sector of the economy has grown at the expense of the other.

The dual economy theory has intellectual ties with other segmentation theories, such as the dual labor market and split labor market theories (Gordon, 1972; Piore, 1975). The major contention of these theories is workers' wages, working conditions, benefits, and control over the work place are often determined by the sector of the labor market or the economy within which they are located. Thus, the segmentation theories involve a critique of human capital theory and status attainment theory which assume that the labor market and the economy are homogeneous (Stolzenberg, 1975). Beck et al. (1978) provide evidence for the assertions of the dual economy model and illustrate that segmentation has important implications for the opportunity structures and experiences faced by individual workers.

The "new structuralism" (Baron and Beilby, 1980) has received a great deal of criticism (cf. Hauser, 1980; Hodson and Kaufman, 1981; Hodson and Kaufman, 1982; Kaufman et al. 1981; Zucker and Rosenstein, 1981). Five recurrent themes appear in critiques of the dual economy model.

The most prevalent criticism is that the dual economy literature tends to be descriptive rather than theoretical. This weakness results in a somewhat arbitrary assignment of industries to economic sectors. Zucker and Rosenstein (1981) illustrate that there have been significant differences in the operationalization of economic sectors by researchers and that these differences often result in disparate findings among studies. Another problem with assigning industries to sectors is that frequently more heterogeneity occurs within sectors than between sectors. For example, many industries have segments which belong in both the core and the periphery. Increasing diversification among core firms tends to exacerbate the problem.

A second frequent criticism of the dual economy literature is that it places varying emphases on the institutional aspects of the economy (Zucker and Rosenstein, 1981). A few researchers (Hodson, 1978; O'Connor, 1973) have included the state as a separate economic sector. Other theorists, while not identifying the state as an economic sector, see the state playing an important role in the segmentation of the economy (Averitt, 1968). This problem is undoubtedly related to the vagueness of the current theoretical propositions of the dual economy model.

Considerable controversy exists regarding consensus on the causal relations in the dual economy argument (Zucker and Rosenstein, 1981; Hodson and Kaufman, 1981). This criticism concerns the use of "outcome" variables, such as income and unionization, to construct the economic segmentation measures. Critics charge that this technique of operationalizing economic sectors invalidates any research findings, although Horan et al. (1981:888) maintain this is not a problem because "there is no necessary relationship between empirical relationships at the aggregate level and those at the individual level."

Another important criticism is that the economic sectors defined in the dual economy literature are not unidimensional, but instead consist of various dimensions. One implication of such criticism is that the number of sectors cannot be assumed, but must be treated empirically.

Finally, critics charge that the dual economy theorists too often assume there is a direct overlap between economic sectors and labor markets. For example, Gordon et al. (1982) argue that core industries largely consist of jobs located in the primary labor market and periphery industries consist of jobs in the secondary labor market.

This paper primarily addresses the first two criticisms of the dual economy literature, since they appear to be the most damaging. Our purpose is to illustrate that the assignment of industries to economic sectors has not been specific and is indeed problematical. By focusing on a single industry, agriculture, which has been uniformly placed in the periphery, we can illustrate the inconsistencies in previous conceptualizations.[2] Second, we examine the effect of agricultural commodity programs on the structure of agricultural production to illustrate how institutional aspects of the economy can serve as a form of economic segmentation. Finally, we discuss how the application of the dual economy model to agriculture can provide new research questions for rural sociologists. Only a few studies have applied the dual economy model to rural areas (Deseran et al., 1984; Hanson, 1982), and these have largely ignored how the model might relate to the structure of agriculture.

Structural dualism in agriculture

Averitt has argued that American agriculture is becoming increasingly polarized, creating two distinct sectors in the agricultural economy. This differentiation was based not on farm size, but instead on government support:

> Thus, American agriculture polarizes into a structural dualism, composed, on the one hand, of those farms growing supported products and, on the other, of farms producing outside the canopy of federal price support. For our purposes, the segregation of farms in relation to government support will prove more useful than the conventional division between large and small ones (1968:164).

[2]By arguing that previous conceptualizations have not been specific, we mean that they have been operationalized too broadly. Most studies have used two digit codes (and in some cases three digit codes) to assign industries to economic sectors. Some of the earlier studies on economic segmentation used an eight-category classification of industries (Bibb and Form, 1977). By focusing on a single industry, agricultural production, we can illustrate the importance of the heterogeneity within industries.

According to Averitt (1968), agriculture historically has been firmly in the periphery, but it now is increasingly being influenced by the core and the federal government. The core economy has established ties with many agricultural producers, primarily through contractual arrangements (poultry production is a good example). In most of these cases, agricultural producers are providing the core firms (food processors) with material inputs in much the same manner that subcontractors supply tires, windshields, body and engine parts, etc., for the unified assembly line of the automobile industry (Freidmann, 1981). An important advantage of these arrangements for producers is that they reduce much of the risk involved in production, particularly in the areas of market access, price, and access to capital.

The advantages of contractual arrangements for core firms, compared to outright ownership by core firms, are varied. In many cases, core firms initiate production contracts to reduce the uncertainty of demand for their products. Hightower (1975) describes how feed companies, such as Purina supported production contracts in the broiler industry as a strategy to provide a stable outlet for their feed. Among the advantages suggested by Averitt (1968) for core firms are 1) transference of some business risk; 2) low-cost maintenance of excess industrial capacity during slack periods; 3) capital savings by diverting funds which can be invested in more profitable pursuits; 4) circumvention of problems of anti-trust laws; 5) avoidance of problems of fringe benefits for periphery owners and their employees and, more important, circumvention of union problems; and 6) promotion of good public relations by creating the image of "big business helping small business." Therefore, contrary to many accounts of advanced capitalism which see small businesses being eliminated, the dual economy model explains the persistence of small businesses by focusing on their advantages for monopoly capital.

The practice of forward contracting in agriculture has gradually increased since 1960. Contracts for marketing or producing were used in about 21 percent of all agricultural commodities in 1974 (U.S. Department of Agriculture [USDA], 1979). However, contractual arrangements were most prominent in a few agricultural commodities--sugar beets, vegetables, dairy products, and broilers. Although many people have predicted that contract production will eventually move into livestock and feedgrain production, it is almost nonexistent in these commodities at the present time. Why contractual arrangements exist in some forms of commodity production, but not others should be of interest to rural sociologists.

Although contractual arrangements between core and periphery firms stabilize prices for producers in the periphery, they do not fundamentally alter the structure of production. Similar to satellites of the auto industry, contractees in agriculture have very little control over production (compared to the processors) and receive relatively low returns, yet they still are burdened with much of the risk in production. In fact, it is the contractees' relationship with the core firm which ultimately keeps them in the periphery. In the broiler industry, for example, we have found that processors continually demand that producers improve their facilities if they want to continue their contracts. Many producers who have already invested large sums of capital and have few alternatives are kept in debt, which ultimately makes them more dependent on the processor. Thus, the emergence of contract production has not resulted in a change in the structural position of producers; it only reinforces their dependency and instability.[3]

A major factor influencing the structural position of many agricultural producers, however, has been the substantial federal price supports. Independent producers protected by price supports and producers that have contracts with core firms both enjoy reduced risk due to stabilized prices. However, unlike center firms, "the government does not try to maximize efficiency by offering a price that approximates minimum unit production costs" (Averitt, 1968:168). The rise of federal price supports has two major consequences that relate to our discussion of segmentation. First, it exposes some of the problems inherent in the theory of marginal productivity. The rise of price supports automatically creates a sector of the economy guided by principles and incentives different from those guiding the other sector(s) of production. Although other structural factors, such as farm size and type of crop, continue to influence decision making and present structural constraints, the differentiation based on government support forms a deeper type of structural dualism. The idea that government programs reduce the amount of risk for farmers has a great deal of support in the literature (Vogeler, 1981). A second consequence of the federal price support program is that it appears to protect relatively small farming operations. For example, in two of the largest and most controversial agricultural commodity programs, dairy and tobacco, the average size of farm is relatively small. Although the persistence of small farms in these two sectors may also be influenced by other factors, such as labor requirements and some aspects unique to production, the protection offered by the commodity programs cannot be ignored. Although reduced risk resulting from government programs often encourages farmers to expand (Vogeler, 1981), it also protects smaller farmers from some of the economies of scale inherent in the market.

The net result of federal government supports in agriculture has been the creation of a sanctuary or reserve that resists penetration from the core. This conclusion would appear to contradict the argument contending that government programs contribute to the growth of corporate and larger-than-family farms. Although strong evidence

[3]We would probably agree with Mooney (1979) that the development of contract production has meant a shift in the class position of these producers, but it has not altered their position <u>vis-á-vis</u> the structure of capital and the differentiated productive sectors.

supports this argument (Bonnen, 1968; Vogeler, 1981), the same evidence reveals that those commodities receiving substantial price support also tend not to be dominated by contract or corporate farming (the major exception being sugar beets). Moreover, while it is true that larger producers tend to disproportionately benefit from most government support programs, the level of benefits does not appear to be the same across the various commodities. Large-scale producers account for a greater share of production in sugar cane, cotton, and rice. On the other hand, wheat, feed grains, peanuts, and tobacco tend to be less dominated by large-scale producers.

Bonnen (1968:503), whose data is often used to support the proposition that government programs favor larger farms, commented that in order to understand the impact of federal support programs, it is necessary to take into consideration the existing distribution of wealth:

> The lowest 20 percent of farmers receive 3.2 percent of net farm money income. But they receive more than 3.2 percent of the benefits of wheat, peanuts, tobacco, and sugarbeet programs. Rice, feed grains, cotton, and sugarcane all distribute to the lowest group less a share of program benefits than they average as a share of farm income. One is tempted to say that these latter programs are regressive in their income impact in farming, but this is not proved by this crude though relevant comparison.

Not only does there appear to be a differential impact of federal support programs on producers of various commodities, there is also a quite different level of participation in programs by commodities. According to the USDA (1979), about 95 percent of the total program payments were for the wheat and feed grain programs. Therefore, the proposition that government programs benefit larger farmers may apply to only a few commodities.

Thus, while many government programs contribute to the increasing size of farms in the United States, the role of support programs in maintaining small farms must also be recognized. By creating this sanctuary for the six "basic" crops plus dairy products, the government has altered their structural position. This view supports the idea that one of the basic functions of the state in advanced capitalist societies is to contribute to further accumulation of capital. However, the state also plays a second function--legitimation. In other words, the state must supplement inadequate family incomes in order to maintain social harmony (O'Connor, 1973). By appearing to preserve the family farm, commodity programs take attention away from agribusiness control over agriculture (Vogeler, 1981) and also help to provide stability to the raw material markets for processors.

Conclusions

We believe that the dual economy theory can make a major contribution to the sociology of agriculture. At the same time, such an approach may help to refine the dual economy model. Up to this point, most studies of economic dualism have treated this segmentation as if it were static. By focusing on a single industry, such as agriculture, it is possible to observe some of the structural dynamics occurring in the economy. Such an approach also reveals many of the limitations to previous conceptualizations that have treated industries as relatively homogeneous units. We have tried to show that agriculture is not a homogeneous industry, and that segmentation may be developing along certain industry-specific lines.

Following Averitt (1968), we have suggested that structural dualism in American agriculture is based on government support. This raises some interesting research questions. Does this segmentation have any consequences for political attitudes, or any support for further government intervention into agriculture, or any willingness to act collectively, or class consciousness among farmers? One of the assertions of dual economy theorists is that the rise of economic dualism divides the working class and ultimately reduces class consciousness. One important question is whether farmers receiving federal price supports identify themselves in the same structural position as farmers not receiving price supports.

Another possible research question emanating from the application of dual economy theory to agriculture concerns the number of economic segments in American agriculture. We have argued that the rise of federal supports in agriculture has produced a form of economic dualism. This needs to be further examined empirically. It is possible that the encroachment by the core economy into agriculture may be producing a new segment in American agriculture. For example, does the rise of corporate and contract farming create a qualitatively different structure of production? The issue of the number of sectors in the economy continues to be hotly debated in the dual economy literature. The resolution to this debate must rely on both theoretical and methodological guidance.

Finally, an analysis of how federal supports in agriculture have formed a type of economic segmentation necessitates an explanation of why federal supports exist for some commodities and not others. For example, did the rise of extensive support for tobacco and dairy producers, rather than for beef or pork producers, result from the relative difference in political power of these commodity groups or processors? Application of the dual economy model to agriculture, therefore, must begin with an increased interest in historical research.

The chief advantage of the dual economy model is that it directs attention to structural conceptualization of agricultural production and away from the characteristics of individual farmers. This conceptualization emphasizes the highly structural side of contemporary agriculture, and this structure is the pivotal cause in producing conflict. One manifestation of this conflict is the increased competition for scarce resources available from the government. Although it has been argued that the government is structured in a way to favor some groups over others, it must also grant resources to less powerful groups at times.

Agricultural commodity programs recently have been interpreted as primarily benefiting agribusiness and larger-than-family farms. However, commodity programs also may be seen as a result of conflict; i.e., benefits fought for and won by farmers. Several studies in sociology have come to somewhat the same conclusions about welfare programs which emerged during the New Deal (Gough, 1979; Piven and Cloward, 1982). Welfare programs have been criticized frequently by Marxists for exploiting the poor and reducing the changes for class conflict. In recent years, however, (especially since the beginning of the Reagan administration) welfare programs have been reinterpreted as the result of battles fought by the poor in the 1930s and 1960s. The growth of welfare can be seen as contributing to structural changes in the position of the poor in much the same way that commodity programs have altered the structural position of many farmers. The current attempt to dismantle the agricultural programs that were established by the New Deal must be seen as a result of continuing conflict over the nature of the welfare state. Certain agricultural commodity subsidies are the result of pressure from farmers, and in a few cases from agribusiness, to reduce the amount of risk in production.

This conceptualization of the changing structure of agriculture attempts to take rural sociologists beyond the issue of the persistence or demise of the family labor farm. Increasing encroachment by the core economy certainly undermines many of the essential characteristics of the family farm and often leaves producers firmly in the periphery. On the other hand, for those producers of commodities influenced by federal government price supports, it would appear that the traditional family farm characteristics remain, although there has been a fundamental change in their structural position in the economy. Thus, emphasis on the characteristics of family labor farms leads one to make conclusions different from those formed when one focuses on the changing structure of the agricultural economy. A chief advantage of using the dual economy model to understand changes in the structure of agriculture is that it provides theoretical guidance in an area that is too often atheoretical.

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