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## THE POLITICAL ECONOMY OF AGRIBUSINESS IN CALIFORNIA

HON. RONALD V. DELLUMS

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

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Mr. DELLUMS. Mr. Speaker, the following study of agribusiness in California made by Don Villarejo of the California Public Policy Center describes the impact of big business and agriculture in our Nation's largest farm output State. The study uncovers important links between growers and other major interests, and should be of interest to many Members, and for that reason, I now submit it for inclusion in the RECORD:

### THE POLITICAL ECONOMY OF AGRIBUSINESS IN CALIFORNIA

(By Don Villarejo)

In early 1966 Ronald Reagan decided to publicly announce his candidacy for Governor of California. Reporters summoned to the press conference were startled to learn that the meeting would be held in a private residence in El Macero, a small farm community in the central valley of California. It seemed strange that a media wise personality like Reagan would forsake the major metropolitan areas of the state and hold a press meeting in a remote agricultural town. Yet by holding this crucial press meeting at the home of John B. Anderson, the world's largest tomato grower with 40,000 acres harvested each year, Reagan sent a signal to agricultural interests throughout the state: he recognized and accepted the primacy of big agribusiness in California.

The symbolic character of Reagan's action showed that he understood that California is the nation's leader in agricultural production. No other state comes close in terms of gross farm receipts. California produces 80% of the nation's lettuce, 60% of all peaches and strawberries consumed in the U.S., and 90% of all grapes. Less well known is the fact that California ranks first among all 50 states in the production of chicken eggs, in tomato production, in sugar production, in lemon production, in cotton production and in the production of field vegetable crops. And California's share in many of the above mentioned products has been growing rapidly in recent years. Just five years ago California ranked third in cotton production among the fifty states, in 1974 our state became the leading producer. Five years ago California ranked fourth in milk and cream production. It now ranks second and soon will become the "dairy state". In food products as diverse as green peas, cucumbers, oats and hay, California has been moving up in the ranking of states according to volume of production. California agriculture has simply outstripped the entire nation in total production.

#### CHANGING AGRICULTURE

Accompanying the rapid emergence of California as the nation's leading agricultural producer has been a marked change in the structure of the basic production unit. Back in 1930 there were 136,000 farms in the state, now there are a little less than 75,000. This disappearance of nearly half of all farms in the state has led to a rapid growth in average farm size. This is summarized in Table I below.

TABLE I.—Acres per farm in California

Year	Acres per farm
1930	224
1950	260
1959	348
1969	617

Source: 1930 figure, California Statistic Abstract, 1970, p. 182. Other years, *Central Valley Report*, prepared by the Economic Research Division of the Security Pacific National Bank, 1973, p. 20.

As is clear from the table, average farm size has grown most rapidly in the recent period. We have all heard of the disappearing family farm, but the figures above suggest that the pressures of growth in farm size have accentuated greatly in the most recent decade. What is the pressure forcing family farms out of business?

In order to understand the pressure forcing changes in the basic production unit of agriculture, the farm, it is necessary to study the farm economy. Farming is viable so long as farm income, mainly cash receipts for products, exceeds production expenses by an amount sufficient to provide a livelihood to those who work the farm. For many years (roughly the first 50 years of this century) farmers' net income amounted to about 40% of gross receipts. But, beginning around 1950, the profitability of farming began to slip. Net income as a percent of gross income declined sharply for the twenty year period 1950-1970. The basic reason this occurred is that production expenses rose more rapidly than did prices received by farmers for their production. This "cost-price" squeeze means that production units (farms) with limited resources will be unable to provide a livelihood to those who work it. On the other hand, the only way to increase profits is to increase the size of the production unit (farm). In the words of Security Pacific National Bank, the nation's largest bank in volume of agricultural loans:

"The narrowing profit margin of the farmer . . . has necessitated the increased farm size to enable him to meet the rising costs. There is cost-price squeeze and farmers have been encouraged to increase investment for modernization and expansion to help raise productivity and offset the cost-price pressures. . . . The farm as a way of life is rapidly changing to a highly complex corporate operation demanding large investments of machinery, supplies, labor, credit and other agricultural services needed to compete successfully on a commercial scale."

This can be most clearly seen by comparing the results of the 260 acre average California farm in 1950 with the results of the same size farm in 1969, as well as with the larger 617 acre average farm of 1969. This comparison is shown in Table II.

TABLE II.—FARM INCOME AND EXPENSE IN CALIFORNIA

Year	Acres	Gross income	Expenses	Net income
1950	260	\$16,865	\$11,088	\$5,877
1969	260	22,793	25,438	7,355
	617	71,822	60,367	17,455

Thus, by keeping farm size fixed the net income would grow from \$5,877 in 1950 to only \$7,355 in 1969 (an actual decrease in terms of constant dollars after taking inflation into account). On the other hand, by increasing average farm size, as actually did occur, the farmer's net income is a comfortable \$17,455 in 1969. The conclusion is inescapable: only by increasing farm size can the farmer counteract the cost-price squeeze. In fact, net income per acre rose in this period from \$23 per acre in 1950 to \$28 per acre in 1969 as a direct result of the efficiencies arising from increasing the size of the production unit (farm).

#### CALIFORNIA AGRICULTURE IN THE SEVENTIES

As indicated previously, the position of California agriculture as compared with other states has been greatly enhanced in the period of the seventies. In part this is due

to the impact of the changes in the structure of farming just discussed. But it is also due to the rapid growth in world-wide demand for food products. Both factors have led to an enormous boom in gross farm receipts obtained by California farms. This is shown in Table III.

TABLE III.—FARM CASH RECEIPTS IN CALIFORNIA

Year	Farm cash receipts	Net income
1970	\$4,633.9	\$983.8
1971	5,119.8	1,155.8
1972	5,536.4	1,473.2
1973	7,278.0	2,453.2
1974	8,669.2	2,688.8
1975	8,997.9	2,241.7

Source: California Statistical Abstract: 1973-75, New York Times, Jan. 3, 1976, p. 27. Farm Income Statistics Statistical Bulletin No. 547, July 1975. Economic Research Service, USDA. California Farm Income; Aug. 11, 1976. California Livestock and Crop Reporting Service, USDA.

The lion's share of both receipts and income go to a relatively small number of farms. In 1964 the U.S. Department of Agriculture found that California farms with receipts of \$100,000 per year or more accounted for 68.8% of sales in that state. This compares with an average of 24% of sales for farms of this size for the entire nation. By the seventies this concentration of size had increased even further in California. Farms with sales of \$100,000 or more now account for roughly 79% of all sales. These giant farms also hold most of the acreage in the state. Farms of 2,000 acres or more own 70% of all California farm land. The average size of such farms is 8,518 acres or roughly 13 square miles in area. One of these, the Kern County Land Company (a division of Tenneco, Inc.) owns land that in total area is larger than the entire state of Rhode Island. Clearly, California farming is now entirely dominated by the 4% of the farms with acreage in excess of 2,000 acres. Farm labor is just another purchased service for these giant farms.

#### RELATED INDUSTRIES: AGRIBUSINESS

There are two basic types of industries that are vitally related to giant agriculture. On the one hand there are the industries that sell services or products used by agriculture. On the other hand are the industries that purchase farm products. Taken together with the giant farms these industries are collectively referred to as agribusiness. In order to more clearly examine the role of farm labor it is necessary to examine both types of industries enumerated above.

The role of the service industries is best understood by reference to the farm production expense record of agriculture. This is outlined in Table IV below.

TABLE IV.—1969 CALIFORNIA FARM PRODUCTION EXPENSES

Type	Amount	Percent
Livestock and poultry	\$570	16.3
Feeds for above	601	17.2
Commercially mixed feeds	331	9.4
Hay, grain, others	270	7.7
Fertilizer and agricultural chemicals	229	6.5
Gasoline and fuel	81	2.3
Hired farm labor	627	17.9
Contract labor	153	4.4
Machine hire	90	2.6
Other	1,152	32.9
Total	3,504	100.0

The "other" category includes interest expense on crop production loans and payments for capital equipment items (tractors, etc.).

Source: 1969 Census of Agriculture, California Bureau of the Census, U.S. Department of Commerce.

there are very few items that are under the direct price control of individual farms. Some, like fertilizers and agricultural chemicals, are directly sold by giant corporations. For example, two of the largest selling lines of these products in California are the Ortho brand produced by the Standard Oil Co. of California and the Oxychem brand produced by Occidental Petroleum Corp. These two are the largest and fifth largest industrial corporations based in California.

Another example of the principal expenses faced by farmers is feed; both locally grown and commercially produced. The world's largest supplier of feed is the Ralston Purina Co., the company that also owns Jack-In-The-Box drive-in food outlets. Profits of this major agribusiness supplier have grown by an average of 15% per year over the past decade, and a record 36% in the six months ended last March 31. Once again, the price of feed products to the farmer is beyond local control.

Another possible direction for improving productivity is the utilization of technological advances through machinery and intricate equipment. Though this expense is not separately broken down in the Census of Agriculture figures shown in Table IV, it is known that this expense is rising rapidly as well. A measure of rise of this expense to farmers can be obtained by examining the financial record of Deere and Co., the world's largest manufacturer of a full line of farm equipment. Net income (profit after taxes) of Deere and Co. rose from \$46 million in 1970 to \$179 million in 1976, an annual average rate of increase of 88% per year.

To finance these rapidly rising costs of services and products used in farm production the farmer faces a difficult problem in terms of cash flow. That is, most cash costs must be paid well before the crop is harvested or products sold. To meet this problem the farmer must obtain credit loans. In this arena the major agribusiness bankers are anxious to provide help. The two banks providing the largest volume of agricultural loans in the United States are California banks: Bank of America and Security Pacific National Bank. Together they provide 65% of all California agricultural loans (by dollar volume). As the prices of services and commodities needed by farmers has grown the need for loans has grown apace. Crop production loans made by the Bank of America grew from \$488.5 million in 1972 to \$601 million in 1974. With high interest rates still prevailing the bank's 1975 annual report states that overall interest income (less interest expense) grew from \$810.0 million to \$1,173.7 million in the same period. In other words, the bank experienced a 50% growth in income from interest paying loans in just two years. While agricultural loans from just one component of the total loan portfolio the rate of increase is expected to be similar for all components, including crop production loans.

Faced with rising costs in all of these components of production expense, each of which is enriching one or another giant corporation, farmers look to their expenses for the one component that they can control or at least influence to some extent. With reference to the enumeration of Table IV there is one expense that is possibly of this kind: the cost of hired farm labor or contract labor. Representing about 22% of the total production expense this is the only major expense whose price is set by the farmer.\* And so the pressure to keep the lid on the price of farm labor is a natural outgrowth of the rising profits of giant corporations providing products and services to agriculture. As the profits of these giants continue to grow the pressure on farm labor will increase.

#### THE BANKS AND THEIR FRIENDS

California business, including farming, utilizes billions of dollars of credit each year. Providing these funds are financial institutions, primarily banks. There are five banks that dominate this business. The banks, ranking 1-5 in dollar volume of agricultural loans nationally, are listed below.

Bank of America.  
Security Pacific National Bank.  
Wells Fargo Bank.  
United California Bank.  
Crocker National Bank.

Together, these five banks provide 91.6% of all dollars furnished as credit to California farms. When farmers deal with suppliers, the transportation industry (shipper of farm goods), or with the food processing and distribution industry they find that they are dealing with many of the people who serve as directors of these large banks. Among the directors of the Bank of Amer-

Harry S. Baker, President of Producers Cotton Oil (Fresno), Owner, South Lake Farms.  
Robert DiGiorgio, Chairman, DiGiorgio Corp., Processor, Director, Newhall Land and Farming (which owns 152,000 acres).  
F. A. Ferroggiaro, Former Chairman of Lucky Stores.  
W. A. Haas, Jr., President of Levi Strauss and Co., Cotton purchaser.  
David S. Lewis, Jr., Chairman of General Dynamics, Director of Ralston Purina Co., feed supplier.  
Franklin Murphy, Chairman, Times-Mirror Corp., Director, Norton Simon, Inc. (Hunt-Wesson division is major processor).

\*It is very important to realize that the figure of 22% of total production expense as representing farm labor expense is an average for all farms of all types and sizes. In a study of the nation's largest farms the U.S. Department of Agriculture found that this expense varies significantly as a function of farm size. In particular, for farms with very large sales volume (\$1,000,000 or more per farm) the labor expense is a significantly smaller proportion of total expense than for moderately large farms (sales between \$200,000 and \$999,999 per farm). Thus the farm labor cost to farms with 2,000 or more acres in production is probably below 20% of total expenses. See: "Our 31,000 Largest Farms", Agricultural Economic Report #176, ERS/USDA.

Rudolph Peterson, Chairman of the Executive Committee Bank of America, Director of Consolidated Foods, Trustee of James Irvine Foundation (major owner of Irvine Ranch), Director of Standard Oil of California (Ortho division is major agri-chem supplier).

Louis A. Petri, Chairman, United Vintners, Inc., Director, Foremost-McKesson, wholesaler, Partner, Napaac Vineyards, Owner, Bullard Ranch.

Samuel B. Stewart, Chairman, Trust Committee Bank of America, Director of American Potato Co.

Theodore Von der Ahe, Chairman, Von's Grocery Co.

E. Hornsby Wasson, Vice-Chairman, Stanford Research Institute, Director of American Potato Co., Director of Standard Oil of California.

Arthur M. Wood, Chairman of Sears, Roebuck and Co., Director, Quaker Oats Co., food processor.

Similar listings for the other banks provides as broad a representation of related industries as the above does for the Bank of America. For example, J. G. Boswell, II is President of the giant cotton producer J. G. Boswell Co. and is a director of Security Pacific National Bank. Richard G. Landis, President of Del Monte Corp., the largest food processor in California, is a director of Crocker National Bank. And Felix Larkin, executive with Security Pacific National Bank serves as a director of another food giant, Carnation Co. Ed Littlefield, chairman of Utah International serves as a director for transportation giant Southern Pacific Co., and also as a director of Wells Fargo Bank. Listings of these interlocking relations among the giant banks and the related industries occupy hundreds of pages in federal government reports.

Another way in which relations among the industrial companies and the banks are solidified consists in the bank trust department stockholdings of corporate stock. Under trustee or safe-keeping arrangements, the five large banks listed on page 8 hold blocks of stock for wealthy customers, usually through several generations. As examples, we list the holdings of bank trust departments of the big California banks in a number of agribusiness suppliers and related industries:

Del Monte Corp.	
	Shares
Crocker National Bank.....	1,100,318
Bank of California.....	455,808
Wells Fargo Bank.....	281,171
Bank of America.....	95,499

Lucky Stores, Inc.	
	Shares
Wells Fargo Bank.....	1,088,921
Bank of America.....	373,445
Crocker National Bank.....	223,682
Security Pacific National Bank.....	110,871
Bank of California.....	93,315

Safeway Stores, Inc.	
	Shares
Bank of America.....	325,253
Crocker National Bank.....	312,859
Bank of California.....	308,647
Wells Fargo Bank.....	211,764
Security Pacific National Bank.....	105,735

Southern Pacific Co.	
	Shares
Wells Fargo Bank.....	1,470,604
Bank of California.....	249,072
Bank of America.....	224,664

Standard Oil of California	
	Shares
Crocker National Bank.....	15,587,610
Wells Fargo Bank.....	1,488,207
Security Pacific National Bank.....	1,030,257
Bank of America.....	833,894
Bank of California.....	625,977

Altogether, the stock holdings listed above have a market value of \$770,000,000. The complete listing of holdings of these big banks in publicly held corporations numbers 560 pages.