

The Crisis in American Indian and non-Indian Farming

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Should Indians invest their land and labor in commercial farming when non-Indian farmers face a serious financial crisis? Answering this question requires an analysis of the economic forces influencing all farmers, Indian and non-Indian alike. Once accomplished, Indians familiar with the circumstances of their specific reservations may question whether they have any social or economic advantages which might help them avoid these forces?

Symptoms of the Crisis

Off-reservation, non-Indian farmers and ranchers face serious financial difficulties. For almost a century, non-Indians have been abandoning farming. In the late thirties, one-quarter of the U. S. population were directly employed in farming. By 1982, fewer than 3 out of every 100 remained. In the previous three decades, farmers have been caught in a tightening vise, crushed between the increasing costs of seeds, fertilizers, wages, taxes, and interest, on the one hand, and relatively low wholesale prices for their agricultural products, on the other (U. S. Dept. of Commerce, 1984:665). After windfall profits in the seventies, the net income to farm operators fell in 1982 to less than it was twenty years earlier (USDC, 1984: 661, measured in constant dollars). Nowhere are the farmers' problems more evident than in their mounting debts. In 1970, American farmers collectively owed 53 billion dollars or about 5 percent of

their total assets. Continued borrowing and high interest rates have pushed this debt to over 216 billion dollars (in 1983) and it is still climbing. Their collective debt now represents over 20 percent of their assets (USDC, 1984:662). The crisis is so serious that almost one third of the U. S. farmers have reached their debt limit, meaning that, unless special measures are taken, they can no longer borrow from private or public institutional sources. The casualties are counted in the thousands, as each year, farmers surrender to creditors lands which have been with their families for generations (2.2% in 1982). Under these conditions, only the largest farms are surviving and smaller operators are forced to supplement their meager farm incomes with off-farm employment.

On-reservation, a comparable but less publicized crisis is emerging. Since their first contact with European settlers, American Indians have progressively lost control of their land and labor. In 1875, when the last of the US government treaties with the sovereign Indian nations were signed, Indians held 166 million acres. Although the U. S. government promised them eternal boundaries around Indian lands, less than a century later their holdings had diminished to 43 million acres (on reservations) and another 9 million acres (in individually held trust allotments). By the mid-1950's, Dorner (1959) estimates that Indian farmers were leasing about 63 percent of their agricultural lands

to non-Indian farmers. Most of the leases were for better lands, leaving Indians with marginally productive farmland or rangeland. By 1978, American Indian reservations had signed over 33,000 separate leases which turned over 4 million acres to non-Indian commercial farmers and ranchers (USDI, 1978:68).

The exodus of Indians from farming lagged that of non-Indian farmers, but the results were the same. In 1940, sixty eight percent of the Indian labor force was employed in agriculture (either as farmers, farm operators, or laborers). Forty years later, less than 6 percent remained (Figure 1). Although a slightly higher proportion of Indians remain in farming than non-Indians, farming has become a relatively insignificant source of income for both populations.

Comparable symptoms of this agricultural crisis are appearing among peasants and small farmers throughout the Third World (Barkin, 1981, Downing, 1982). The similarity of the symptoms suggest that Indians, third world peasants, and some U. S. farmers are being confronted with comparable problems unleashed by a common set of underlying political and economic forces.

Farming: Then and Now

An understanding of the farm crisis begins by contrasting less commercialized farming, such as that which characterized much of the rural

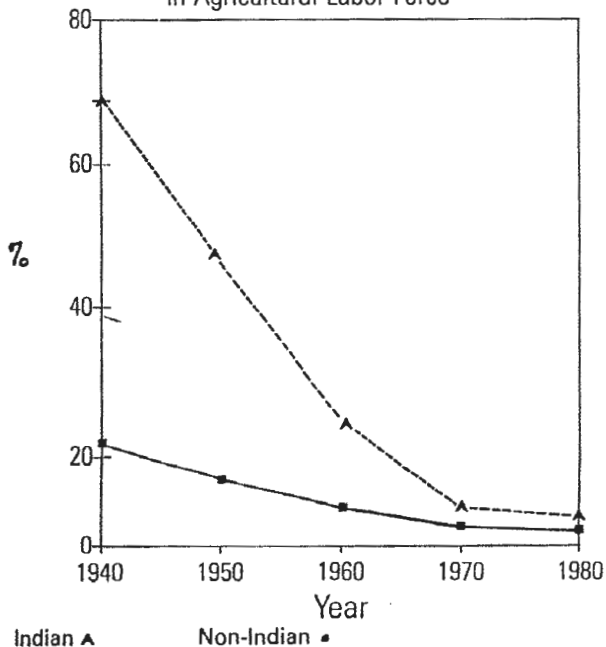
world before this century, with modern commercial farming.

Before the penetration of agroindustry, households and families controlled food production. They prepared the land, selected the seeds from their harvest, irrigated, weeded, and harvested. Foods were often processed at home. The farmers gave higher priority to cultivating a wide variety of foods to satisfy their subsistence needs, and secondary priority to transporting and marketing their surplus in local "farmers' markets". Agricultural labor was seldom bought or sold. Peak periods of labor needs were met with cooperative exchange relationships within kinship networks or with neighbors. Although these early systems provided a sustainable food supply for the farmers, they exhibited low productivity and profits.

In contrast, agroindustrial farming focuses on the production of a few commodities for a cash income rather than subsistence. Productive activities which were once managed, directed and owned by the farmer are now widely differentiated among specialists. Hybrid seeds, most of which will not reproduce, must be purchased annually from multinational seed companies. Farms specialize in a few crops. Farmers pay others for preparing their land, and spraying pesticides and herbicides, or they purchase expensive machinery and equipment. Labor is seldom exchanged and rarely provided without cost by kinsmen. Products are sold "at the farm gate", sometimes long before they are harvested. From there, they enter a multitiered transport, processing, and marketing system. Vertically integrated farms have taken control of the production of food from the plow to the shopping cart. Few farmers attempt to produce their own food. And agricultural production is sustainable only insofar as it remains tied to energy and industrial supply lines over which farmers have little control.

Ranching has also changed. Once ranching was relatively simple. Ranchers herded cattle on open ranges, moving their herds between pastures and water holes and finally driving them to market and selling them directly to urban butchers. Nowadays, commercial ranchers enter into multiple market transactions. They purchase fodder and veterinary services; pay for building of fence, and machinery repairs; contract others to drill wells; and hire ranch hands. Less time is spent "riding the range" and more time is spent arranging leases, obtaining grazing permits, repairing machinery, monitoring shifts in national market prices, and marketing. The legendary Ponderosa-type operation of a large family ranch has almost disappeared and

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Source: USDC, 1984

the need for cowboys has diminished with the increased use of motorcycles, trucks, and airplanes.

The key difference between the earlier systems and agroindustry is not simply that the technologies differ, which they do. Nor that the earlier system lacked the profit motive. They most certainly did not. The difference lies elsewhere, in the way that sizable capital, which is necessary to sustain commercial agroindustrial production enters and leaves farming. Understanding how capital enters into farming offers the first step in discovering the forces underlying the problems of contemporary farmers.

Maximizing Profit

Agriculture involves the assembling of four things for the purpose of making a profit. The economist prefers to call these four things "factors of production." They are land, labor, capital, and management. The basic economic problem consists of how to combine these four factors in such a way as to maximize profit. Quite simply, profit is what remains after the product is sold and the cost of producing and selling it are repaid. The economists call this the "profit equation", which simply restates what I have just said in the following form:

$$\begin{array}{r} \text{revenues} \\ - \text{costs} \\ \hline \text{profit} \end{array}$$

Profit may be increased in only two ways. Revenues may be increased by selling the product at a higher price. Or costs may be reduced by paying less for one or more of the four factors of production. Productivity, which is so often emphasized in farming discussions, simply refers to another way of reducing costs, by obtaining more farm products (or "output") for the factors of production.¹ An increase in the productivity of land, labor, or purchased factors provides more farm commodities without increasing costs and thereby, yields more profit.

Modern commercial food production depends on purchased factors to increase production. In effect, farmers' economic decisions usually concern substituting one kind of factor for another. Farm machinery substitutes mechanical power for human and animal labor. Fertilizers make up for natural deficiencies in the land. Other purchased factors reduce the risks associated with droughts, plagues and pests by investing in pesticides, herbicides, and irrigation. Increased reliance on the purchase of substitutes to counteract land degradation coupled with increased competition for non-agricultural land use and rising labor costs have forced farmers to

invest greater and greater amounts of capital to maintain their high levels of production.

Reevaluation and Investment

The costs of the factors of production are constantly changing. If the increased costs of labor, machinery, land, or purchased factors cannot be passed along to the consumer, profits decline. Likewise, profitability declines when poor management decisions result in putting too much of any factor into the production process without obtaining a proportional increase in products. Shifting costs of production and market prices leads to frequent fluctuations in the profitability of farming. As a result, the profit equation demands continual recalculation and reevaluation.

Reevaluation occurs when those who have or control capital must decide whether or not to continue to invest in farming. Investors include governments, private banks, institutions, individuals, and a panoply of financial institutions. The goals of investors and farmers are simultaneously cooperative and antithetical. Investors and farmers both seek capital accumulation. Unlike farmers, investors view farming as only one of many possible sources for accumulating capital. Ultimately, the relative attractiveness of farming to the penetration of capital depends on its rate of profit compared to other opportunities. Interest rates, the terms of loans, taxes and government incentives determine the conditions under which capital will enter farming. To insure their capital, investors demand collateral, such as a lien on the land itself, machinery, or the future labor of the farmer.

Although farmers may gain a false sense of pride by boasting that investors cannot farm, the truth of the matter is that they will not farm. Direct entry into the productive process ties up investors' scarce capital in long term, less liquid assets and restricts their access to alternative avenues of capital accumulation. Such inflexibility retards the investor's abilities to move capital from farm to farm and from farming to other more profitable opportunities. On the other hand, capital needs to be invested if it is to accumulate more capital. The capitalist must invest.

Capital Expansion

Capital without investment opportunities diminishes in value. In a perfectly competitive market, capital obeys the same laws of supply and demand which influence any other commodity. As more and more capital is accumulated, it must either seek out new investments or face a

crisis resulting from an oversupply. At least three mechanisms generate new investment opportunities for profit-making and, thereby, delay the crisis (Barkin, 1981). They are commodification, standardization, and differentiation. Despite their imposing names, these processes are relatively easy to understand.

Commodification

Commodification of social life refers to the transformation of social activities which were not previously in the market place into market commodities. In agriculture, fertilizer becomes a commodity when it is no longer home produced (e.g. night soil or animal dung) but purchased. To purchase the fertilizer, agricultural goods must be sold, converted to a monetary standard. Once a social or economic activity has undergone extensive commodification, its survival outside the capitalist system becomes exceedingly difficult.

Commodification of consumer goods creates the demand for farm products and expands investment opportunities. For example, the simple human need for quenching thirst has been so commodified by the purchased beverage industry that plain water has become a beverage of last resort. Purchased commodities, such as soft drinks, coffee, and tea have taken the place of a normally unmarketed commodity, a glass of water.

Standardization and Differentiation

New opportunities for capital accumulation also occur by means of two closely related processes: standardization and differentiation. Standardization is the establishment of market equivalence between different commodities or factors of production. A common form of standardization occurs through the establishment of universal grading and ratings used to market agricultural commodities. Such ratings erase quality differences between local level varieties, preventing them from being reflected in the marketplace. In coffee production, for example, small regional producers used to be able to demand high prices for their coffees from buyers when their products carried regional identities. Pluma Hidalgo coffee producers, in Southeastern Mexico received higher prices than Veracruz coffee producers. Subsequently, an international grading system eradicated this local level advantage by reclassifying both coffees in the same category. Thus, Pluma Hidalgo and Veracruz coffee now share an equivalent international market value. Standardization of labor converts workers of different ethnic groups, localities, and nationalities into an undifferentiated work force, wherein a day's labor of one

worker is equivalent to that of another worker. Such labor equivalence permits laborers to be rapidly and efficiently substituted for one another, reduces their power to negotiate for higher wages, and holds down the costs of labor in production.

Conversely, product differentiation reappears after commodities have left the farm. The food industry masterfully redifferentiates products as they are processed and placed in the market. Food processing technologies, packaging, and advertising transform previously undifferentiated commodities into tastier, healthier, happier, sexier, or newer commodities which command higher prices and, thereby, generate greater profits. Although the farmers indirectly benefit from the increased demand for their product, they do not reap the profit from redifferentiation. Differentiation also appears when competition is encouraged between a variety of producers from different regions and nations. The development of alternative and competing sources of production reduces the leverage of all producers within the market place and generates competing opportunities for capital investment.

Commodification, standardization, and differentiation prevent farmers from capitalizing on their differences in product quality, while end suppliers and processors introduce and control differences which are made available to the consumer. They create new opportunities for generating capital in farming and establish an economic system through which it becomes exceedingly difficult for farmers to accumulate capital themselves.

Crisis of Realization

Granted that investors seek the highest rates of return, it might seem reasonable to expect that all capital would flow to the most profitable investments. For example, if the highest returns were in cotton rather than in other less profitable sources of investment, then it might seem that all capital would be invested in cotton. Understanding why this situation does not happen leads us still closer to discovering the economic context of Indian and non-Indians commercial farming. High rates of profits in any productive activity attract more capital investment, as investors seek higher and higher returns. The continued injection of capital leads to overproduction as more of the commodity is produced than the market can absorb. The result: falling revenues. In the cotton example, the market would be flooded with more cotton than needed to meet consumer demand. Conversely, a decreased production of other commodities takes place as the producers of the

other commodities find it more difficult or expensive to obtain capital. Shortages begin, supply decreases, and the rate of profit increases for the decapitalized commodity. As the rate of profit increases, capital follows its laws of motion and moves out of cotton to the other, more profitable opportunity. This process is called the "crisis of realization". Investors are well aware of this problem and constantly seek to second guess the market and move their capital into markets they anticipate will be expanding and out of markets they anticipate will be saturated.

Politics is an important part of investment decisions. Political stability must be maintained to insure that investments are recouped or, in case of losses, collateral recovered. Returning to the example, cotton investors might avoid nations, regions, farms, or ethnic groups with highly organized labor which might demand increased wages or, what is much more serious, halt production altogether through strikes. Such risks and their anticipated costs may lead some investors to seek out relatively more stable, but less than optimum investment opportunities. Profitability may also be increased by government subsidies, tax incentives, and a variety of comparable political mechanisms. The crisis of realization and the inherent political nature of investment insure that capital will be constantly moving from opportunity to opportunity, sector to sector, and commodity to commodity seeking the highest rate of profit. They also insure that business activities must be tightly linked to politics. Consequently, political action becomes as important to the competitive, commercial farmer as market prices.

A last step is necessary to understand the general economic forces influencing Indian and non-Indian farmers. The rates of profit vary between sectors of the economy (farming vs. other investment opportunities), products within a sector (one crop vs. another), regionally, and between different ethnic groups and classes. Consequently, capitalism expands at unequal rates as it seeks the highest rates of profit in a world of fast changing and competing opportunities. Its uneven expansion partially accounts for delayed exodus of Indian labor from farming, compared to that of non-Indians (Figure 1) and indicates that the in-depth penetration of the previously described system into Indian reservations still lags that of off-reservations farmers.

Indian Farming within the Larger Context

It should now be apparent why neither the investors nor the governments which protect them can afford to ignore marginal peoples on

marginal lands. The goods produced by American Indians and other marginal farmers generate little or no capital which may be reinvested in the larger economy. Until they are alienated from their subsistence pattern and sell their labor, they only marginally consume the products produced by capital invested elsewhere in the economy. No matter how productive or sustainable their subsistence agricultural activities might be, they threaten the future expansion and accumulation of capital.

When Indians engage in commercial farming, they trade one set of problems for another. This paper has previewed the problems of commercial farming. Commercial farming involves a serious commitment of land, labor, and above all capital. Investment, under the general conditions described, entangles Indians in a complex, highly competitive business. No special favors are granted to them or their products because they are produced by Indians. Whereas the cost of labor involved in Indian produced arts and crafts may be offset by the willingness of non-Indians to pay higher prices for a Navajo-produced rug or silver crafted by a Hopi, commercial agriculture is different. Indian labor become undifferentiated from Mexican, African, black, male, female, and child labor when it is incorporated in an agricultural product. Nobody will pay a premium for Papago-cattle or Apache joboba. Moreover, commercial farming demands highly competitive managers who must simultaneously act as an accountant, salesman, machinist, price analyst, and labor negotiator. Kinship obligations and intra-tribal politics increase the costs of production, are antithetical to modern agroindustrial farming, and increase the likelihood of financial loss.

Overall, the degree of penetration of capital and the anticipated rate of profit to investors for any particular Indian reservation is the result of the interplay between the economic and political forces operating at three levels: (1) those which influence all farmers (2) those which influence all Indian reservations as a result of their special political relationship with the federal government, and (3) specific factors unique to specific reservations. Consequently, it is impossible to offer a specific conclusion as to whether or not Indians on a specific reservation should invest their land and labor in commercial agriculture. This question should only be answered by those who will be held responsible and accountable for their recommendations.

Apart from this overall context described above and shared by Indians and non-Indians alike, Indian reservations share certain special conditions which discourage investment of cap-

ital in agriculture. In his extensive review of the history and development of agriculture on Southwestern Indian reservations, James E. Officer (1972) succinctly summarized those factors responsible for the lack of agricultural development.

Among the factors that have inhibited the development of agriculture and stock raising on the reservations, we can cite the following: the struggle of the Indians to establish and protect their rights to land and water, the imposition on certain reservations of the allotment system and its attendant problem of fractionated ownership, the failure of the federal government to make good on its promises for the construction of irrigation projects and related facilities to serve Indian reservations, the slowness of the federal government to assist the Indians in resolving such basic questions as reservation ownership, the inability of the Indians to obtain credit, and the failure of tribal governing bodies to resolve critical internal problems. (ibid. 75)

From the perspective of the outside, the American Indian farmers' principle problem is a lack of capital. Lacking or unable to use their own capital, Indian farmers must borrow. Federal prohibitions prevent the mortgaging of tribal land and government approval is required to lease individual allotment land. From the perspective of the general context, these problems translate into higher costs and risks and lower rates of profit compared to non-Indian farming.

To meet their credit needs, they must turn to the government. The Bureau of Indian Affairs maintains a revolving credit fund for agricultural loans, but it has proven seriously incapable of meeting the massive capital requirements required for commercial agriculture, and attempts to increase it must be subjected to the competing political interests of non-Indian farmers, especially those who benefit from favorable leasing arrangements. Fully capitalized, some reservations might be less inclined to lease their lands.

Yet another disincentive to Indian and non-Indian investors is a realization that, unlike agribusiness, reservations have priorities other than maximization of profit. These priorities include reservation leaders' desires to (1) maintain and protect Indian culture, (2) protect their patrimony and resources, and (3) improve the living conditions of their fellow Indians and future generations. For accumulation of capital based on commercial farming to take place, it must take priority over all these goals, lest the

capital be lost in other priorities and not reinvested. Investors are aware that strict profitability objectives may not be shared by all members of a tribe, which also decreases the likelihood of profits being reinvested in farming.

Summary

Faced with mounting interest rates, enormous debts, and the uncertainties of weather and politics, non-Indian and Indian commercial farmers are now confronting the reality of their situation and realizing that they are losing control over their destinies. Those remaining Indian reservations and Indian lands which are still not completely committed to commercial farming have a critical advantage over their non-Indians who are being overwhelmed by the crisis: they still can decide whether or not they wish to become involved.

Like a restless spirit, capital is constantly on the move, shifting from one opportunity to another, seeking to maximize profit and avoiding risks which might retard its ability to accumulate more capital. Commercial agroindustry is but one of many alternatives for capital investment. The present crisis in non-Indian and Indian agriculture has arisen primarily because a capital intensive industry has become relatively unprofitable compared to alternative investments. The underlying reasons for decreased profitability rest with the ultimate objectives of the larger system, of which commercial farming is a part. The fact that costs have been increasing faster than revenues, the labor force is abandoning farming, interest rates are high, and government support programs are inadequate, are all valid symptoms of an underlying problem. But the symptoms should not be confused with the real crisis, which is a consequence of an economy dominated by need for capital accumulation.

Footnotes:

1. There are many ways of measuring productivity, but the most common ones are in terms of products per unit of land (tons per acre), products per unit of labor (tons per day of paid labor), or output per unit of factors of production (tons of food per pounds of fertilizer).

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