

Preface

Our career long interest in agriculture no doubt stems from the fact that both of us grew up on farms (big and small) and come from families with long histories of farming on the Canadian Prairies and the Great Plains of the United States. More than a decade ago, late in our graduate studies at the University of Washington, we realized our common background and began discussing farming and cropsharing and decided to reread Steven Cheung's classic, *The Theory of Share Tenancy*. Upon a second, more critical reading, we were surprised by the lack of farming details in Cheung's study and his casual empirical assertions. Although we still believe Cheung's work is a watershed in the economics of organization, we were surprised by Cheung's use of risk sharing to explain cropsharing. Risk-sharing arguments are often untestable and, more important, often divert attention from important incentive and enforcement issues in contracts and organization.

We then proceeded to examine the vast literature—mostly in the burgeoning area of principal-agent theory—spawned by Cheung's study. This literature, like Cheung's work, emphasized risk sharing as a rationale for contract and organizational forms. Furthermore, the theory focused on stylized facts that were at odds with our own understanding of modern North American agriculture. Most notable, the literature assumed that cropshare contracts had vanished from modern agriculture. Since we knew from our own experience that cropshare contracts were still widespread, we first set out to explain the existence and extent of these contracts in modern agriculture. We fondly recall when a senior professor of agricultural economics flat-out told us, "There are no cropshare contracts in American agriculture anymore." Now, of course, no one is surprised by the existence of share contracts, given the expansion of empirical work within and beyond agriculture.

In 1992 we published our first paper and subsequently began to direct our research toward developing an explanation of farm organization consistent with actual farming practices—especially those in modern developed agriculture—completely based on transaction costs and explicitly ignoring risk-sharing considerations. Since then we have published many more papers on contracts and organization in agriculture.

This book is a compilation, elaboration, and extension of our published work. We use new data to retest our original hypotheses. The book also elaborates on our past work by connecting and extending our earlier models. By linking studies together in a consistent theoretical framework and with consistent empirical evidence, the book allows the reader to easily see connections among a variety of topics, ranging from the choice of land contract to the determinants of vertical integration. In the process, the book makes a much stronger case for the transaction cost approach to agricultural organization than can be made by examining separate, focused studies one at a time. And, a decade after our first publication, we can say that our initial paradigm remains consistent with our most recent data and our most recent theoretical extensions.

Because of our focus on transaction costs and because of our empirical emphasis, our book might alternatively be titled “Ronald Coase Goes to the Farm.” Instead, we shamelessly borrowed our title from Coase’s famous article, originally published in 1937. The “nature” of the farm, however, has an interpretation that extends beyond Coase’s use of “nature” for industrial firms. In agriculture, Mother Nature is the fundamental force that shapes the incentives and transaction costs that, in turn, ultimately shape agricultural organization.

We wish to express gratitude to those people who have helped us over the years. Foremost is our debt to Yoram Barzel, who not only guided our respective Ph.D. theses, but quietly and forcefully taught us about transaction cost economics. We also are grateful to those who helped us with data collection, particularly Bruce Johnson and Larry Janssen who first supplied us (for free!) with the original Nebraska–South Dakota data from their own surveys of farmers and landowners. Various extension agents were instrumental in helping us design and collect the data for Louisiana and British Columbia, especially Howard Joynt of the British Columbia Ministry of Agriculture and Al Ortego, USDA extension economist at Louisiana State University. We also need to thank Ray Bollman of Statistics Canada for helping us fill in several blank spots on a number of tables. Four farmer-landowners—Henry Adolf, Gary Allen, Les Lueck, and Harold Munk—patiently answered questions and shared their farming experience, which greatly helped us understand general farming and contract practices. We also thank our friends and colleagues who never grew tired (or at least never told us) of reading about and discussing farming: Nabil Al-Najjar, Curt Eaton, Steve Ferris, D. Bruce Johnsen, Chuck Knoeber, James Meehan, Rulon Pope, Clyde Reed, Tom Ross, Randy Rucker, Zane Spindler, Wing Suen, Wally Thurman, and Jim Verammen. Larry Boland deserves special mention for producing all of the graphs and for tolerating endless changes to them. There are thanks due to participants, too numerous to mention, in more than thirty presentations at seminars and conferences, although two conferences (thanks to David Martimort and Jacques Cremer) at the Institute for Industrial Economics at the University of Toulouse are worth noting. We also thank the four anonymous referees for The MIT Press who provided us with a wide range of important comments on the initial draft, and our editor John S. Covell for his encouragement from the very beginning of the publication process.

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