

# AGEC 410 – Agricultural and Food Policy

## 10– Structure of Agriculture

Basic questions in policy debate:

1. Who controls production and marketing decisions?
2. What does industrialization mean for future agriculture?
3. Will family farming survive?
4. Do farm programs help preserve family farming?

5. Is there market power in ag?

6. What are the policy options to maintain balance of power?

**What is a family farm?**

## Aspects of Industrialization:

### 1. Vertical coordination (Supply chain)

#### Percent U.S. Hogs Sold by Method

Method	1997	1999	2000	2001
Formula (market price+)	39.1	44.2	47.2	54.0
Fixed Price (cash contract)	2.9	3.4	8.5	5.7
Fixed Price (to feed cost)	5.3	9.8	12.3	16.2
Risk sharing	3.1	4.6	4.6	6.6
Other	6.1	2.3	1.7	0.2
Spot Market	43.4	35.8	25.7	17.3

Source: Grimes and Meyer, U of MO

#### Percent Hogs Direct Packer Owned

1994 – 6.4    1997– 9.9    2000 – 24

## 2. Increased size

### Index of Plant Size Hog Slaughter, All US Plants 1985 = 100

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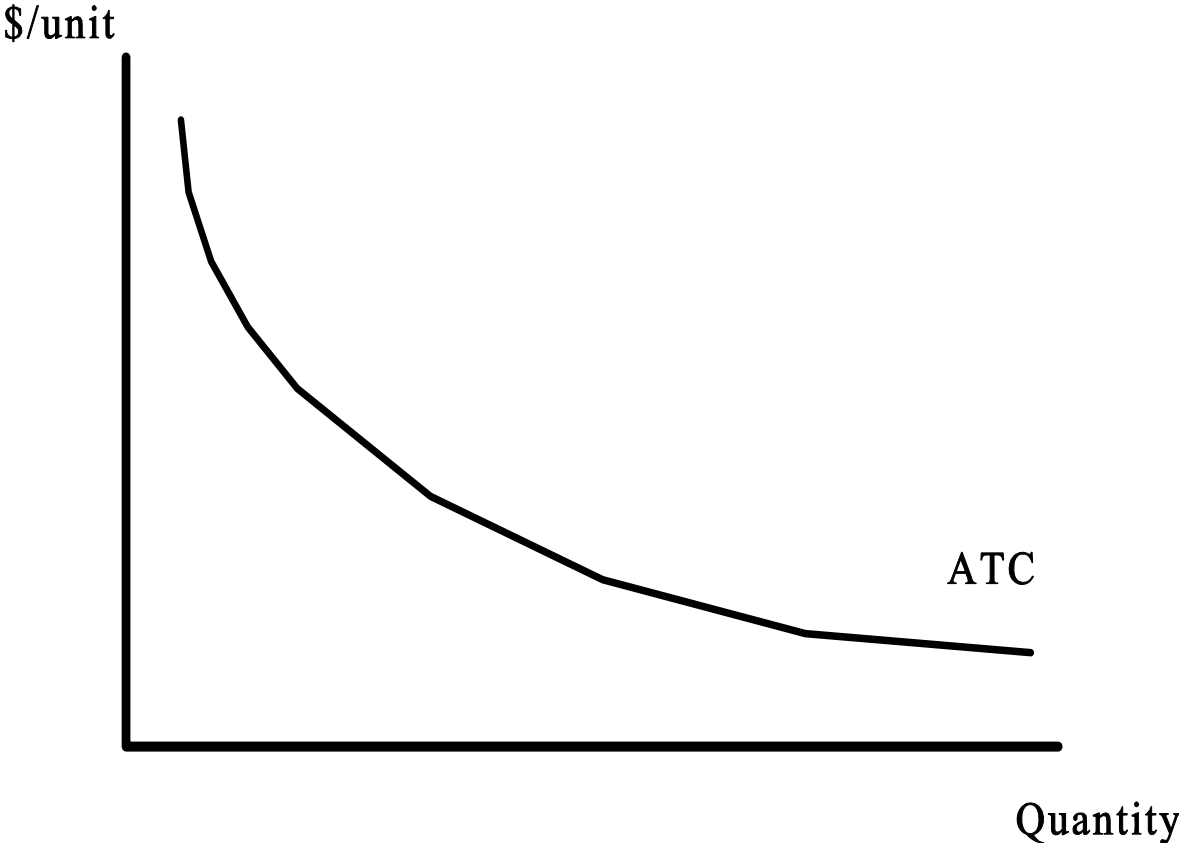
Year	Index	Year	Index	Year	Index
1985	100.0	1992	153.0	1999	285.6
1986	111.1	1993	163.7	2000	253.1
1987	110.8	1994	191.7	2001	261.5
1988	119.9	1995	187.4	2002	278.2
1989	130.7	1996	180.4		
1990	120.0	1997	201.9		
1991	135.7	1998	264.6	2005	309.1

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hog slaughter/plant numbers

GIPSA, Packers & Stockyards Statistical Report

Scale economies: As quantity increases ATC falls



### 3. Falling numbers, increased concentration

#### Hog Slaughter: Firm Numbers and Concentration

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Year	U.S. Firm Numbers	CR-4
1985	338	32.2
1986	299	32.5
1987	298	36.6
1988	297	33.5
1989	277	34.0
1990	290	40.3
1991	267	41.9
1992	258	43.8
1993	234	43.5
1994	217	44.3
1995	209	45.5
1996	200	49.6
1997	184	54.3
1998	152	53.9
1999	143	56.8
2000	152	57.1
2001	151	56.9
2002	142	56.4
2003		64.2
2004		64.1

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GIPSA, Packers & Stockyards Statistical Report

#### 4. Expanding market size

## 5. FDI

Why industrialize?

1. Control quality

2. Manage risk

3. Economies of scale

4. Economies of scope

5. Strategic behavior

Concerns:

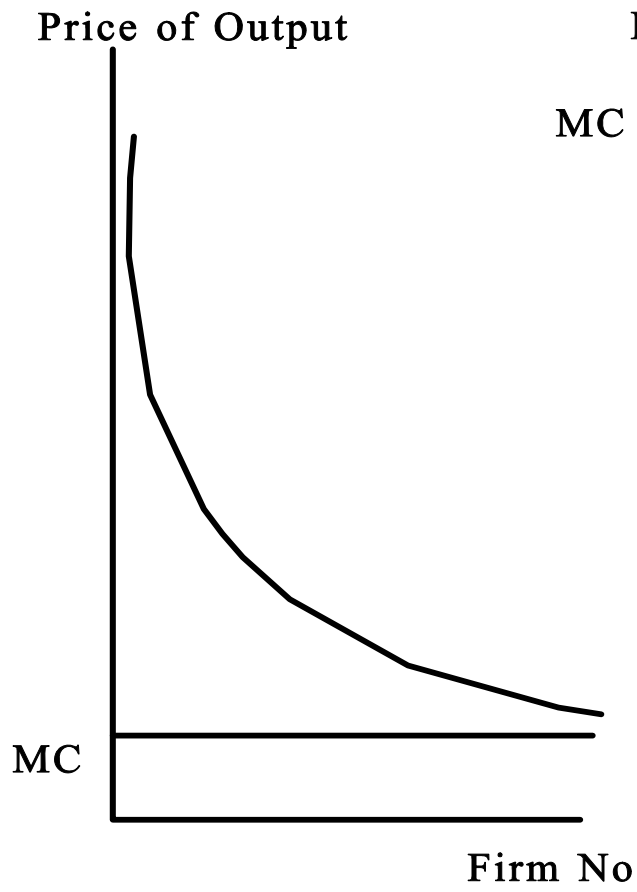
A. Economic:

1. Market foreclosure (captive supplies)

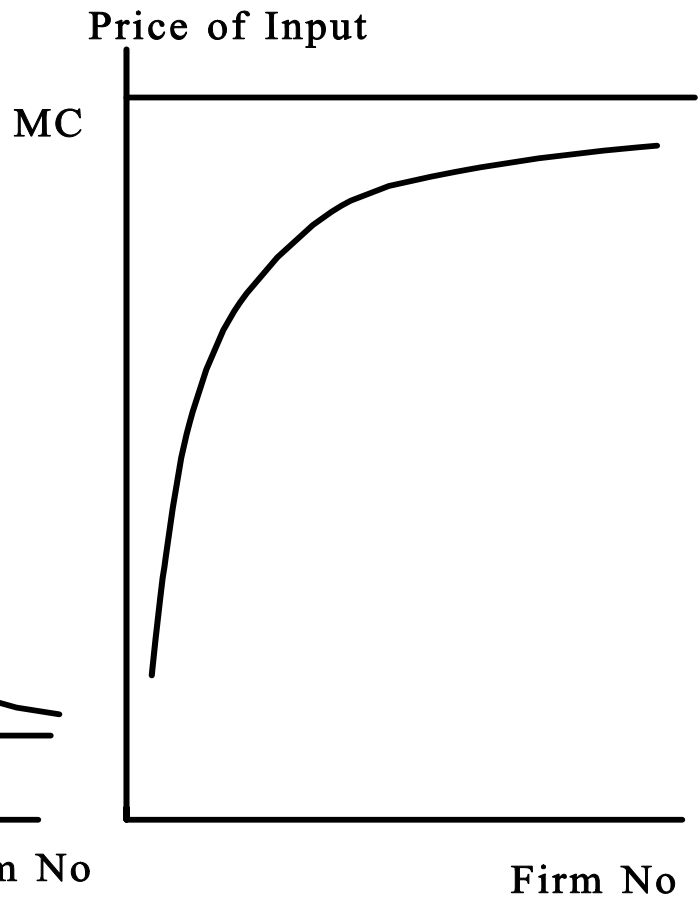
2. Price discovery – thin markets

### 3. Use of market power

Mark-up pricing



Mark-down pricing



4. Limit new products, innovation

5. Transparency

## B. Social and Political Concerns:

### 1. What are implications for family farms, rural communities, and rural institutions?

loss of independence by farmers

impact on tax base

immigration and labor issues

impact on local environment

### 2. Wealth concentration

### 3. Multifunctionality

A European concept that small scale family farming provides inherent benefits to a society:

US opposes in WTO but are we moving in that direction?

Issues of Constitutionality and States Rights

Policy Options to affect structure

1. Multifunctional subsidies

2. Targeting Farm Program Benefits

3. Regulation of:

production practices

ownership

size

location – zoning rules

ban (moratorium) on mergers  
proposed in US Senate

ban exclusion clauses

ban non-disclosure clauses

#### 4. Information (Mandatory Livestock Price Reporting)

## 5. Anti-trust

Sherman Act – restraint of trade

Clayton Act – merger approval

2 (sometimes conflicting) channels for livestock  
Department of Justice

Packers and Stockyards Act, 1921

Prohibit: unfair, deceptive, discriminatory,  
controlling - manipulating supplies,  
control services, rates, standards

## 6. Countervailing power

fight size with size

a. idea around longer in form of coops  
Capper-Volstead Act

b. marketing orders

c. Commodity promotion – check-offs  
generic advertising

product research market development

productivity enhancing research

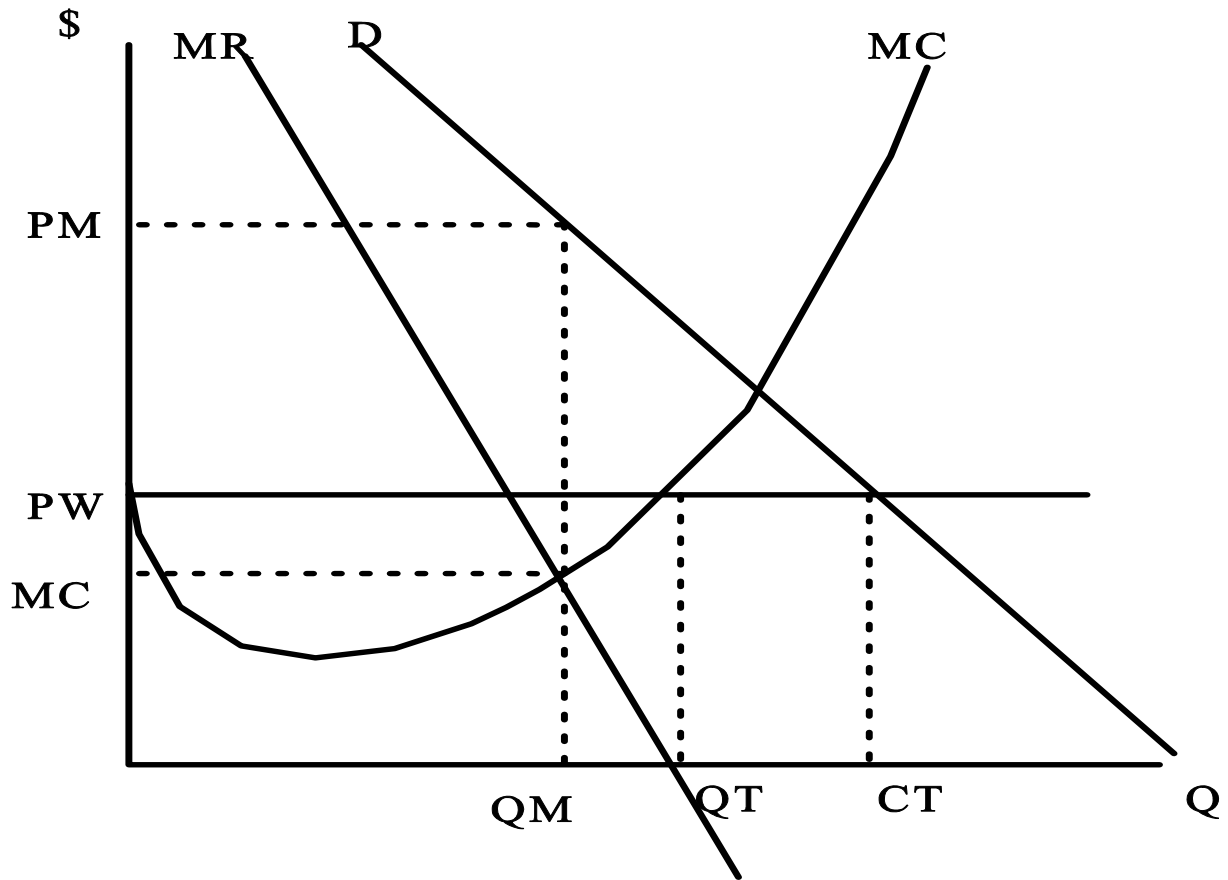
Argument is that individual producers would not

Issues:

d. Agricultural bargaining

## 7. Trade

open border undercuts market power



8. Tax policy

9. Research and Extension Policy