Historical Developments in U.S. Agriculture

Future of Contracts in Agriculture Conference

Kansas City, MO

September 4, 2003

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TEXAS A&M UNIVERSITY SYSTEM

Background

- Current structural developments not new
- Part of progressive trend toward industrial and globalization
- Supported by technology policy, trade policy, and farm policy
- Inherent in capitalistic system

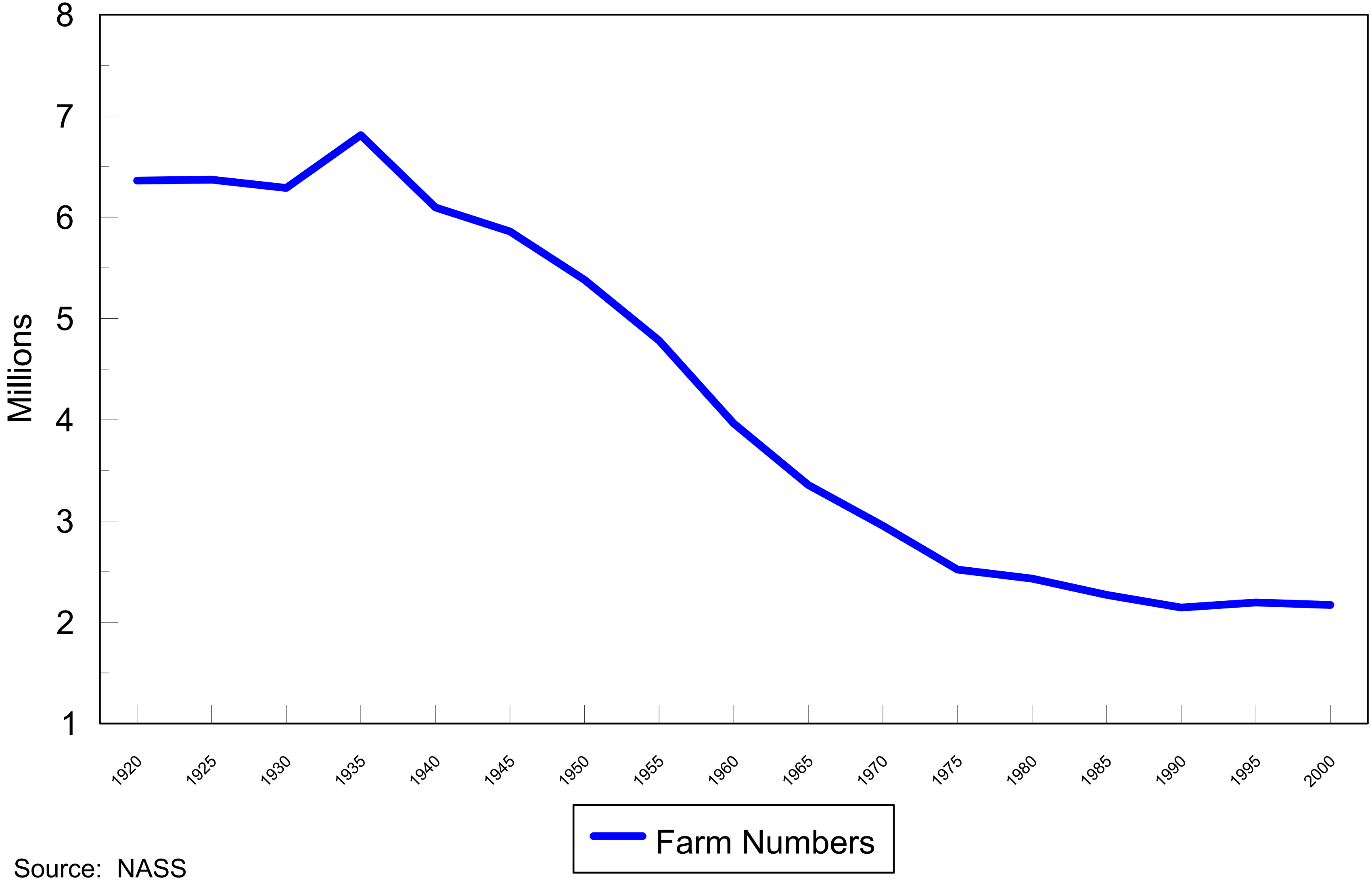
Objectives

- Trace structural developments in agriculture
- Draw conclusions
- Draw implications for future structure and issues

Lack of coordination of production with market is a major historic problem

- Resulted in chronically low farm prices and incomes
- Led to counter-productive price supports and production controls
- These policies discouraged development of export markets
- These policies were not effective maintaining farm numbers

Trend toward fewer U.S. farms



Source: NASS

Sectors absent price and income supports have experienced integration

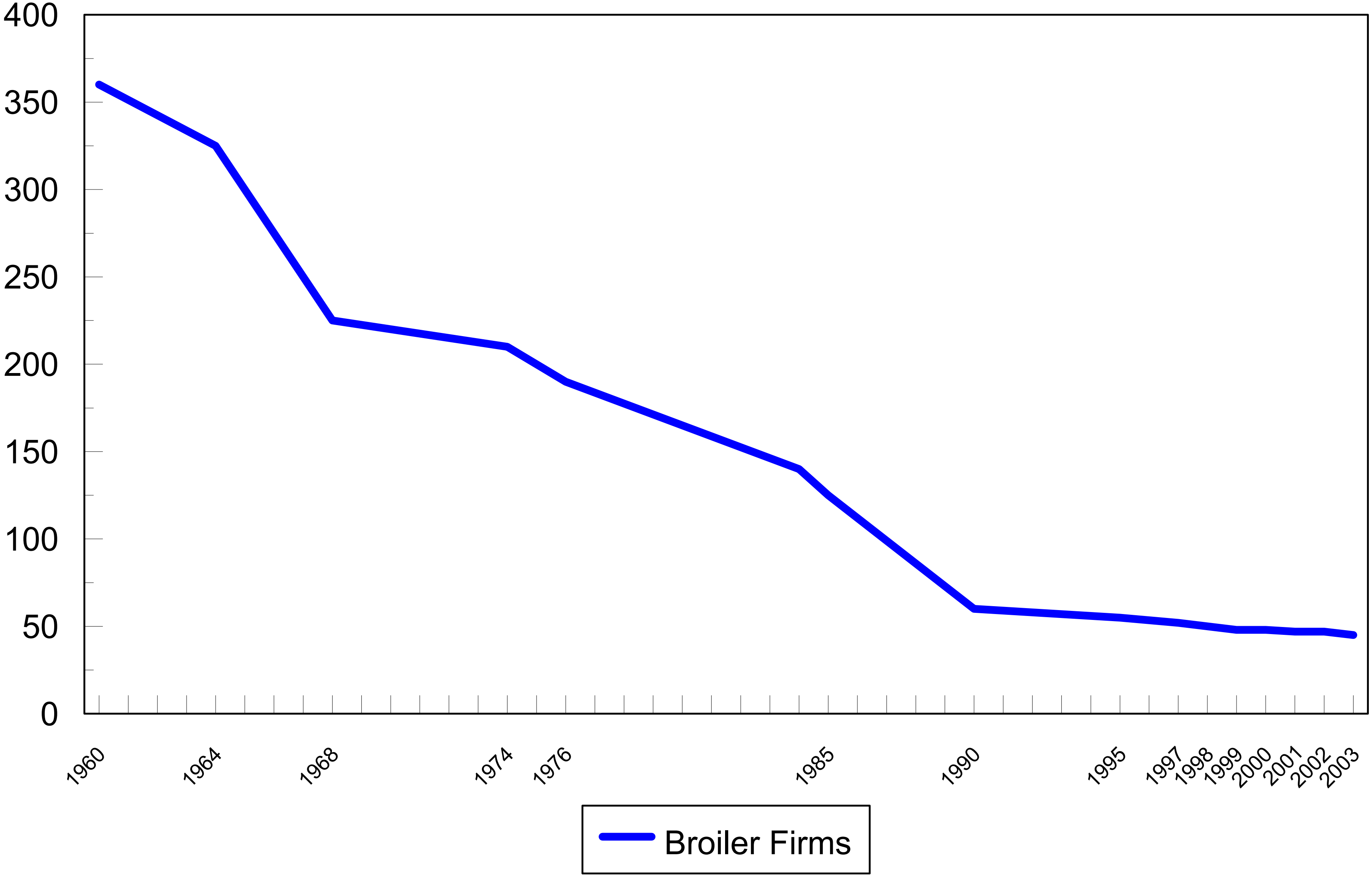
- Contract integration provides means to share risk
- Means to coordinate production with market needs

Percent of value of production under production contracts and vertical integration

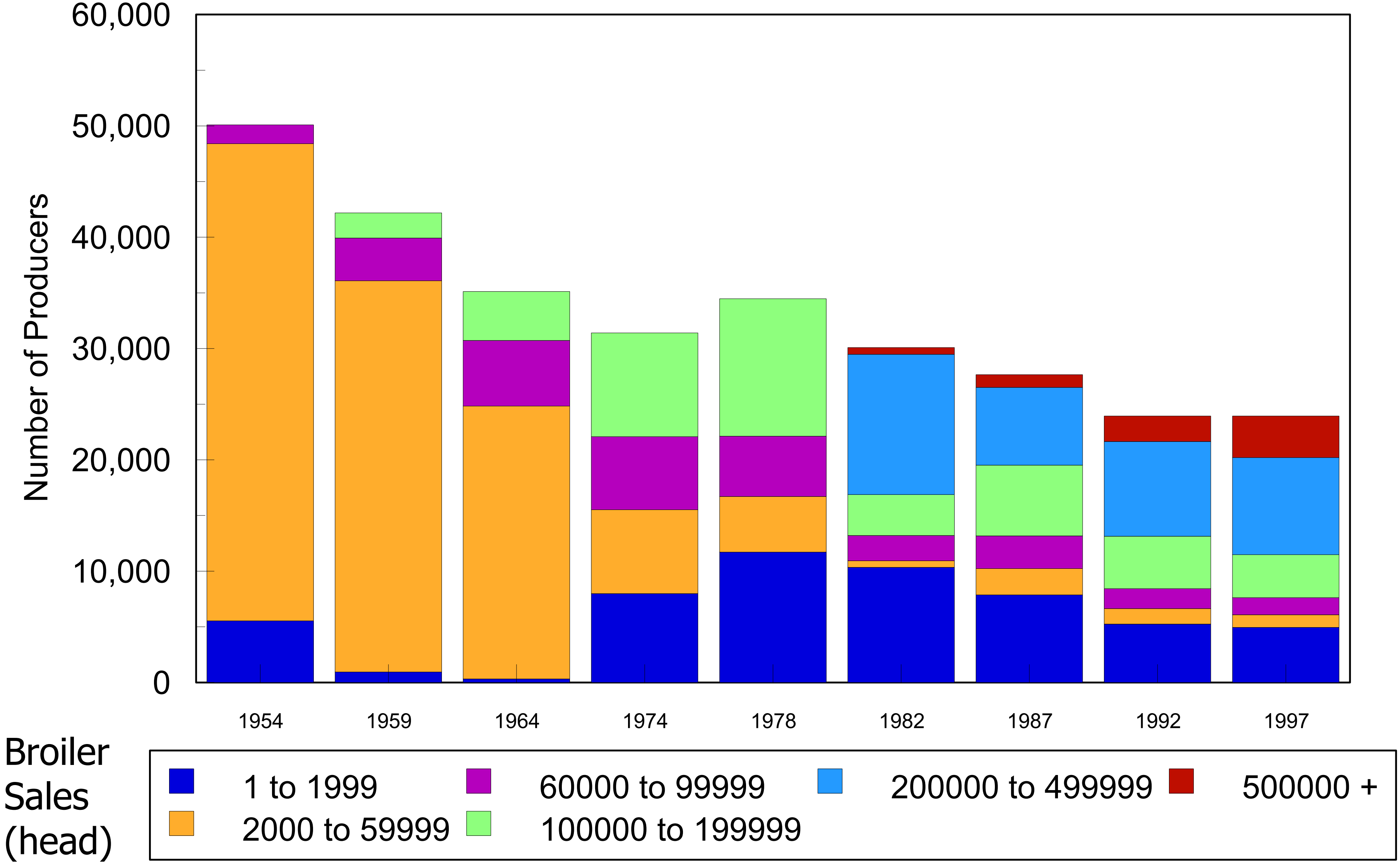
	Production contracts			Vertical integration		
Commodity	***1960***	***1970***	***Most recent***	***1960***	***1970***	***Most recent***
Broilers	93	90	83	5	7	16
Turkeys	30	42	56	4	12	32
Eggs	5	20	36	10	10	60
Pork	1	1	30	1	1	2
Fed cattle	10	18	23	3	4	
Milk	90	90	95	2	1	1

Sources: Mighell and Hoofnagle; Martinez

Number of U.S. broiler integrators



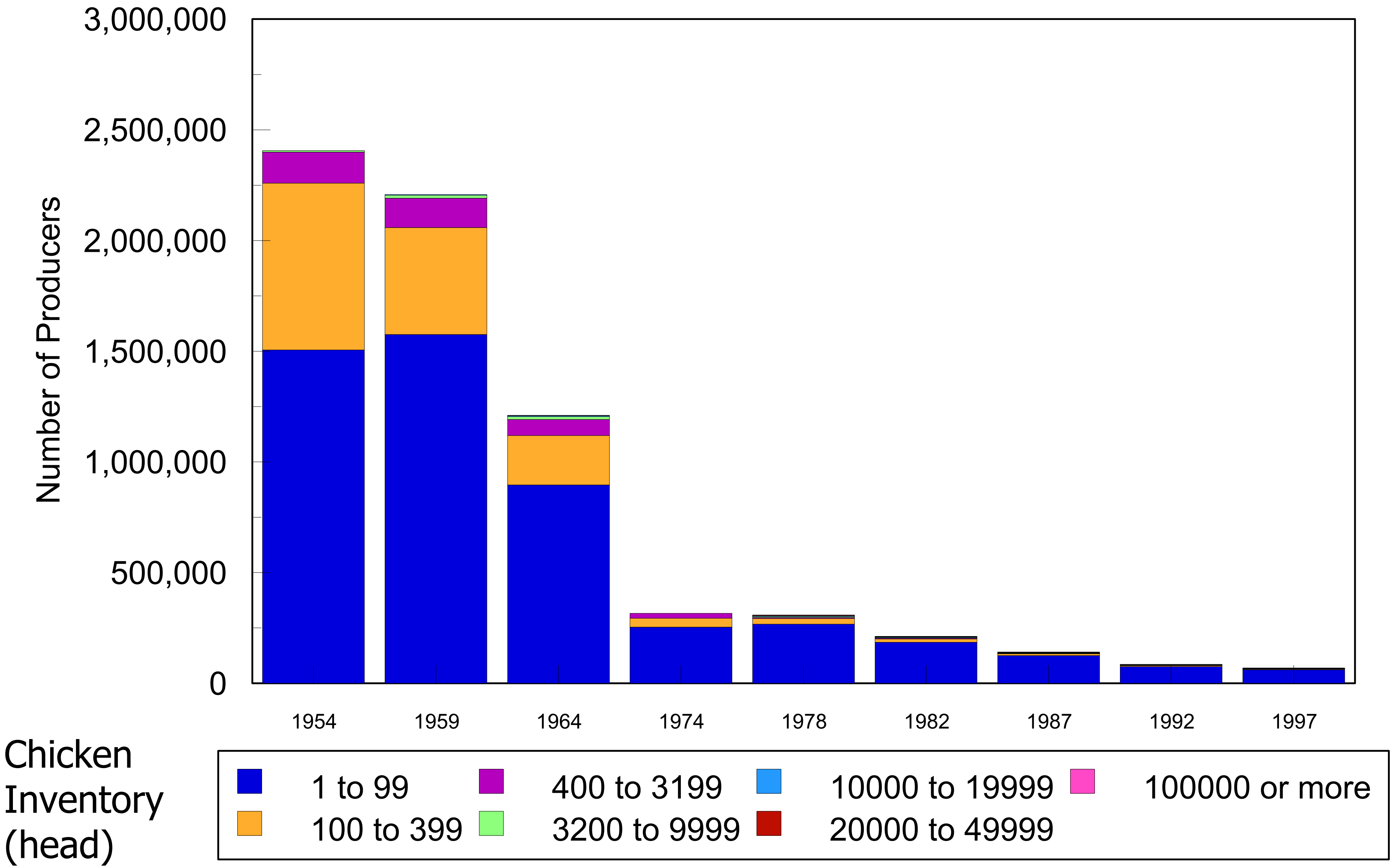
Number of U.S. broiler producers, census years, 1954-97



Broiler structure conclusions

- Primary reliance on contract growers for production
- Decline in number of growers and integrators despite rapid consumption growth
- All grower size categories decreasing except those having over 500,000 broilers sold.
- Shift in production from Northeast and Midwest to Southeast and Southwest
- Cooperative involvement severely challenged
- Spot market for live broilers largely disappeared

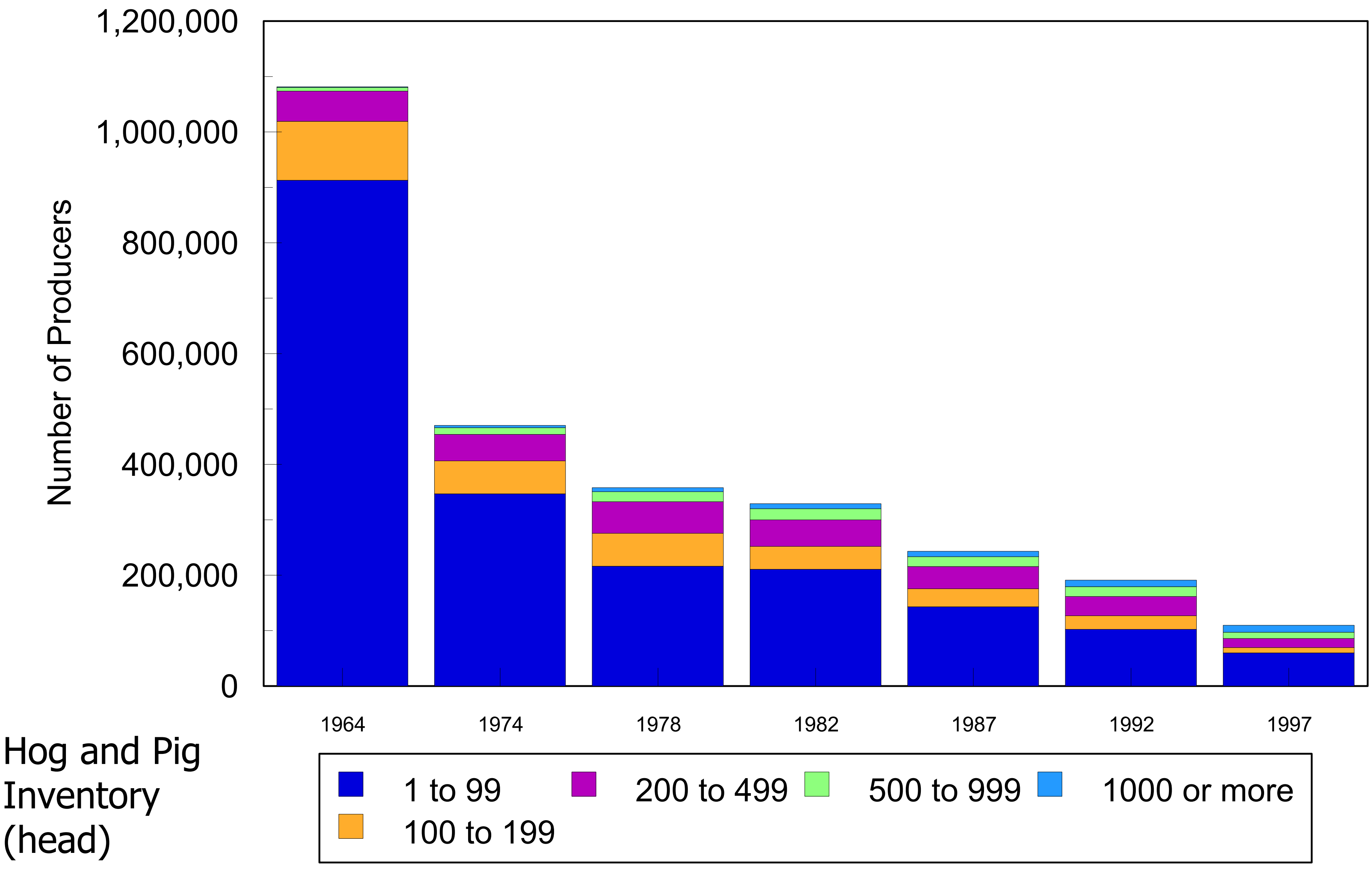
Number of U.S. layer/egg producers, census years, 1954-97



Layer/egg structure conclusions

- Phenomenal decrease in number of producers
- Combination of contract grower production and large independent farms
- All grower size categories decreasing except those having over 100,000 layers
- Regional production related to population shifts
- Cooperative involvement challenged
- Primary spot market for eggs largely disappeared

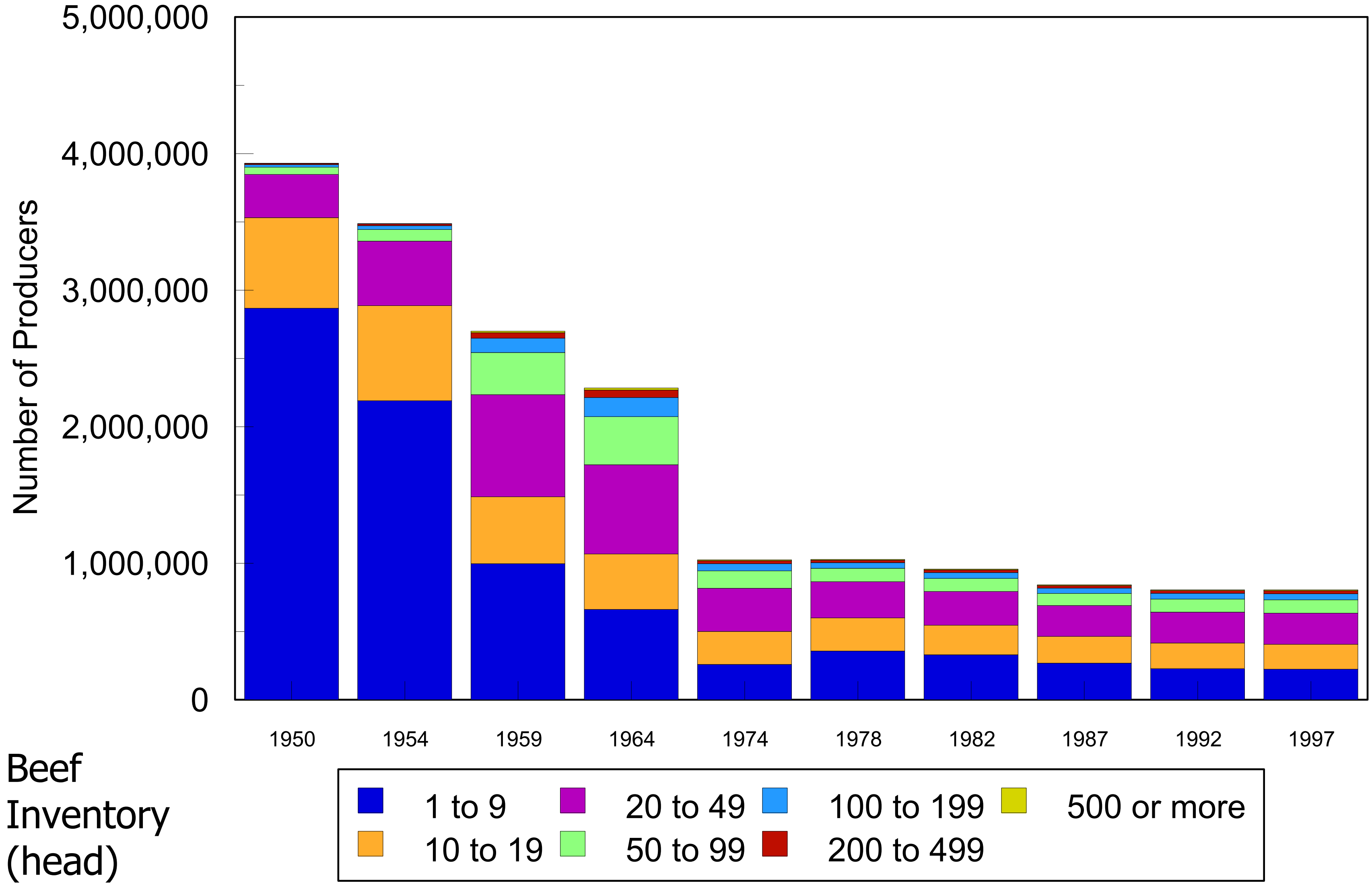
Number of U.S. pork producers, census years, 1964-1997



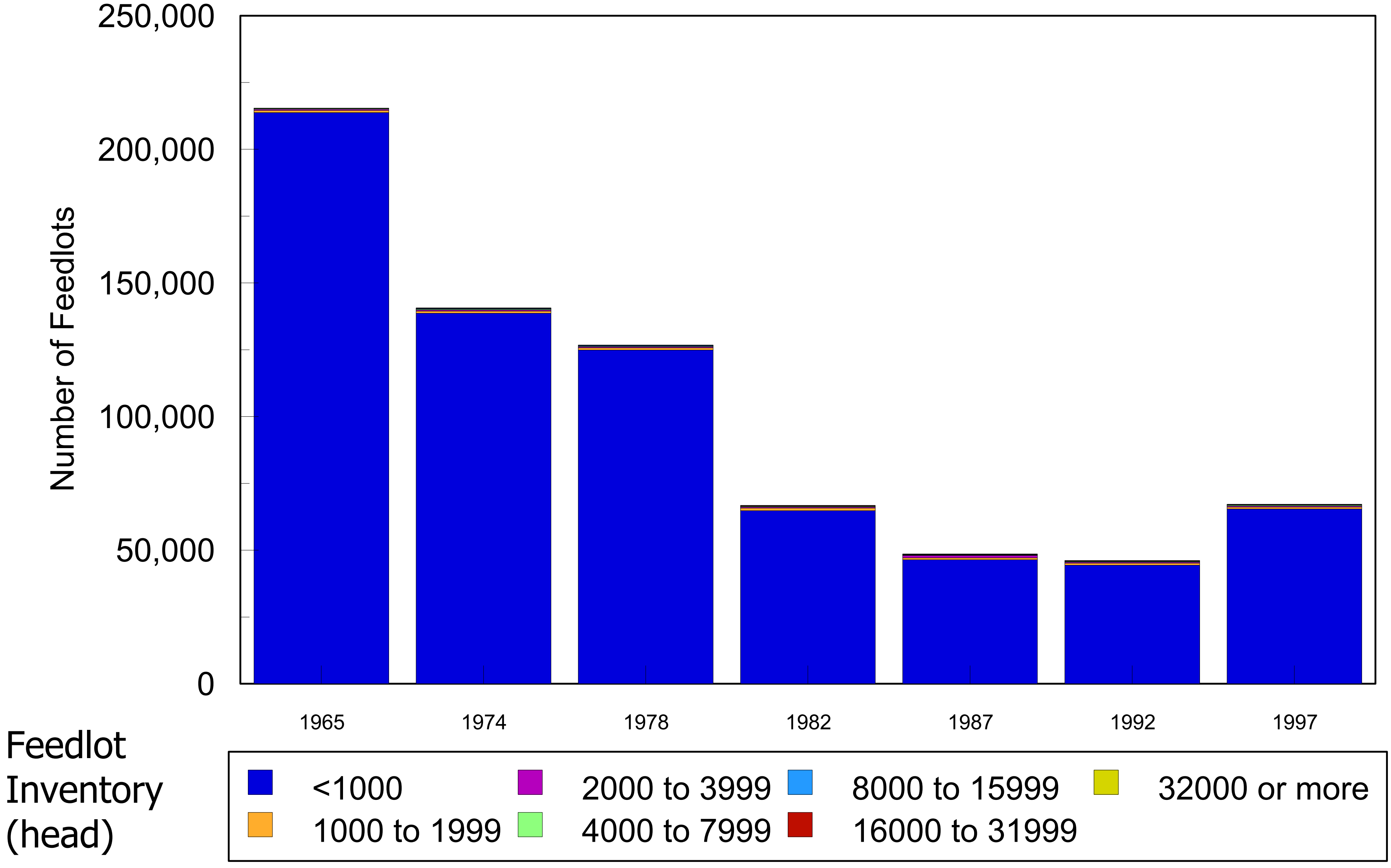
Pork Structure conclusions

- Large decline in number of producers
- Rapid structural transition to contracting and integrator production
- Imports of feeder pigs from Canada important
- All grower size categories decreasing except with over 1,000 hogs
- Region shift unclear
- Cooperative involvement severely challenged
- Primary spot market for hogs declining and likely to disappear

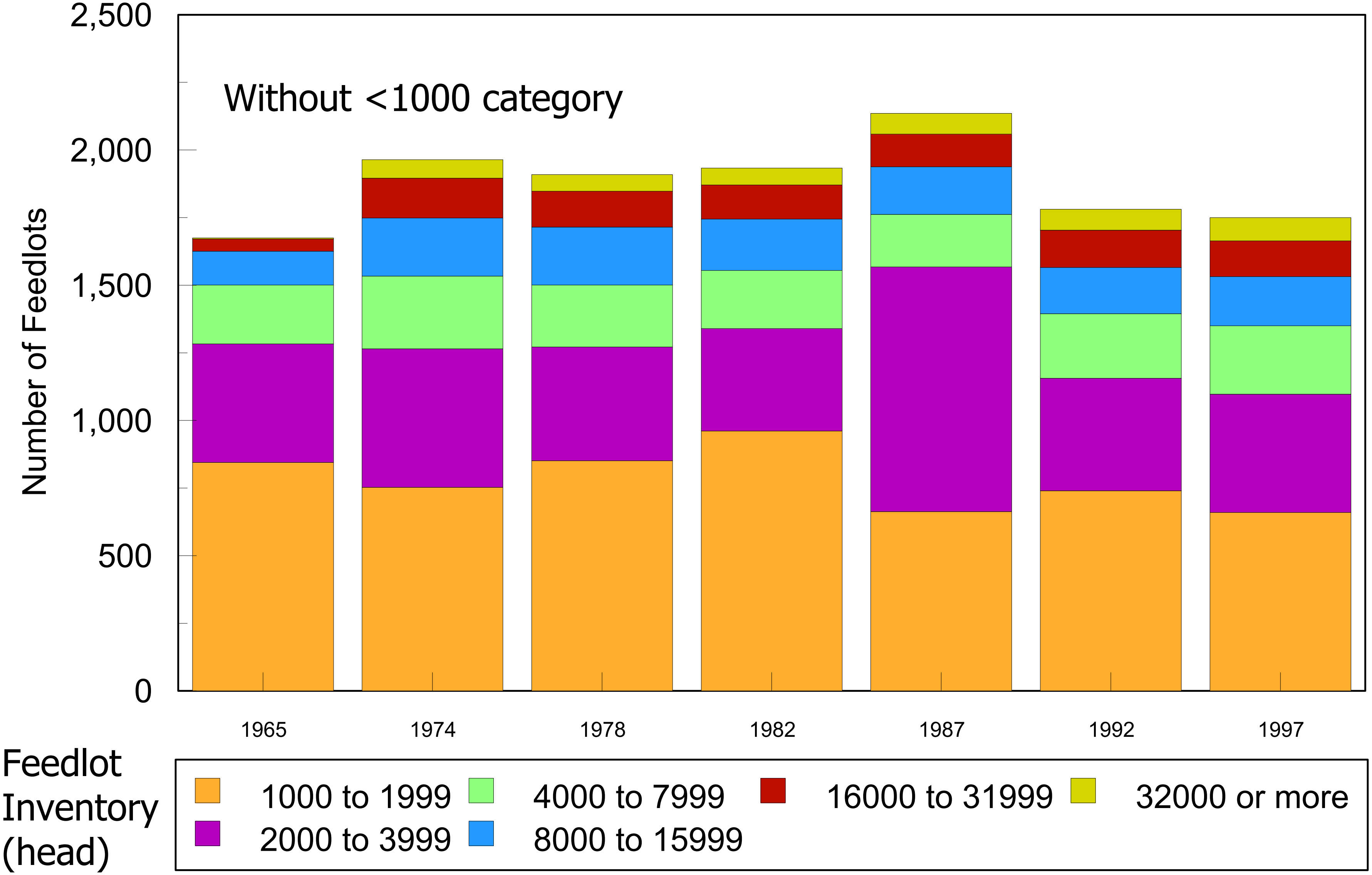
Number of U.S. cow/calf producers, census years, 1950-97



Number of U.S. beef feedlots (23 States), census years, 1965-97



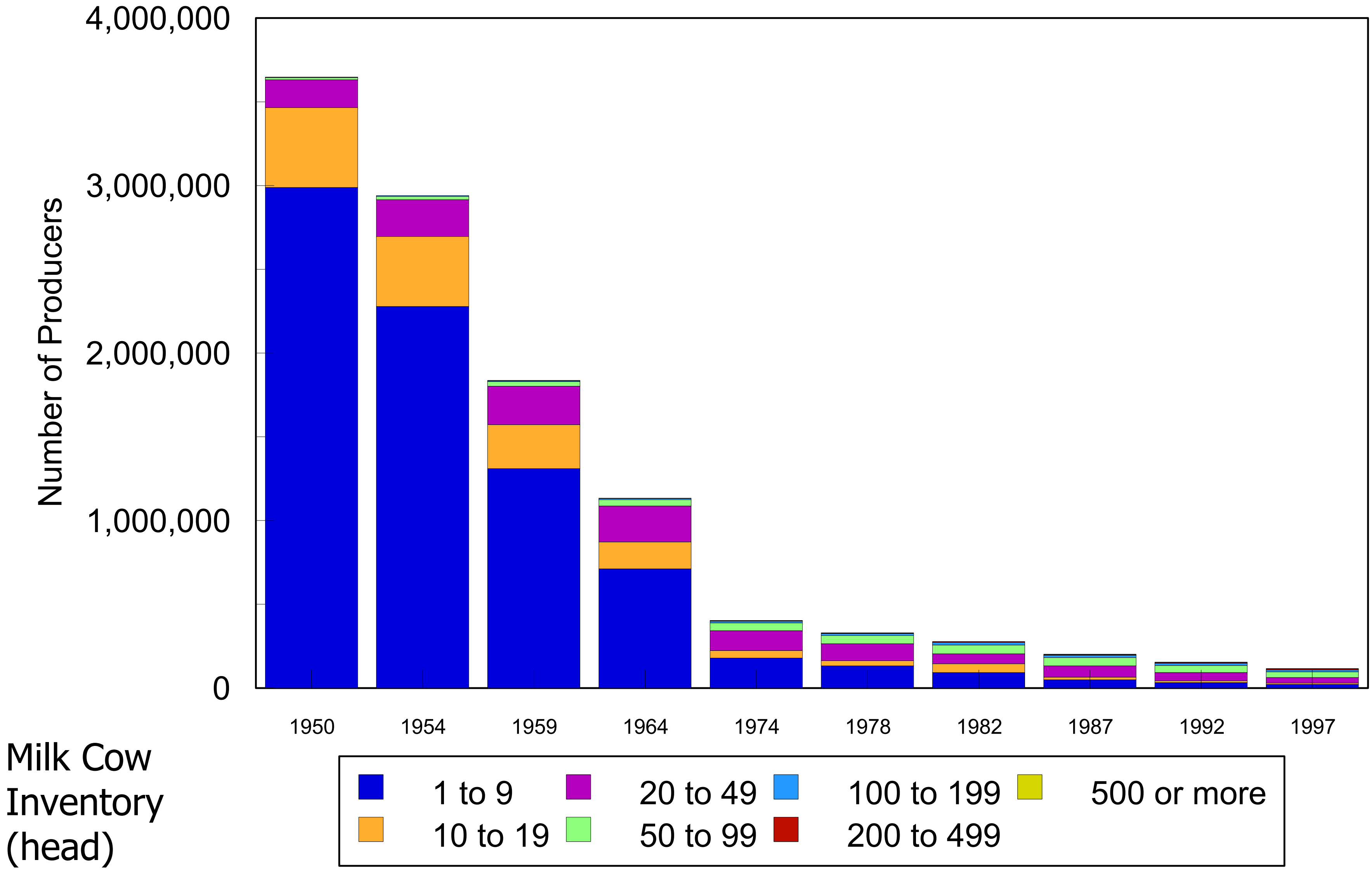
Number of U.S. beef feedlots (23 States), census years, 1965-97



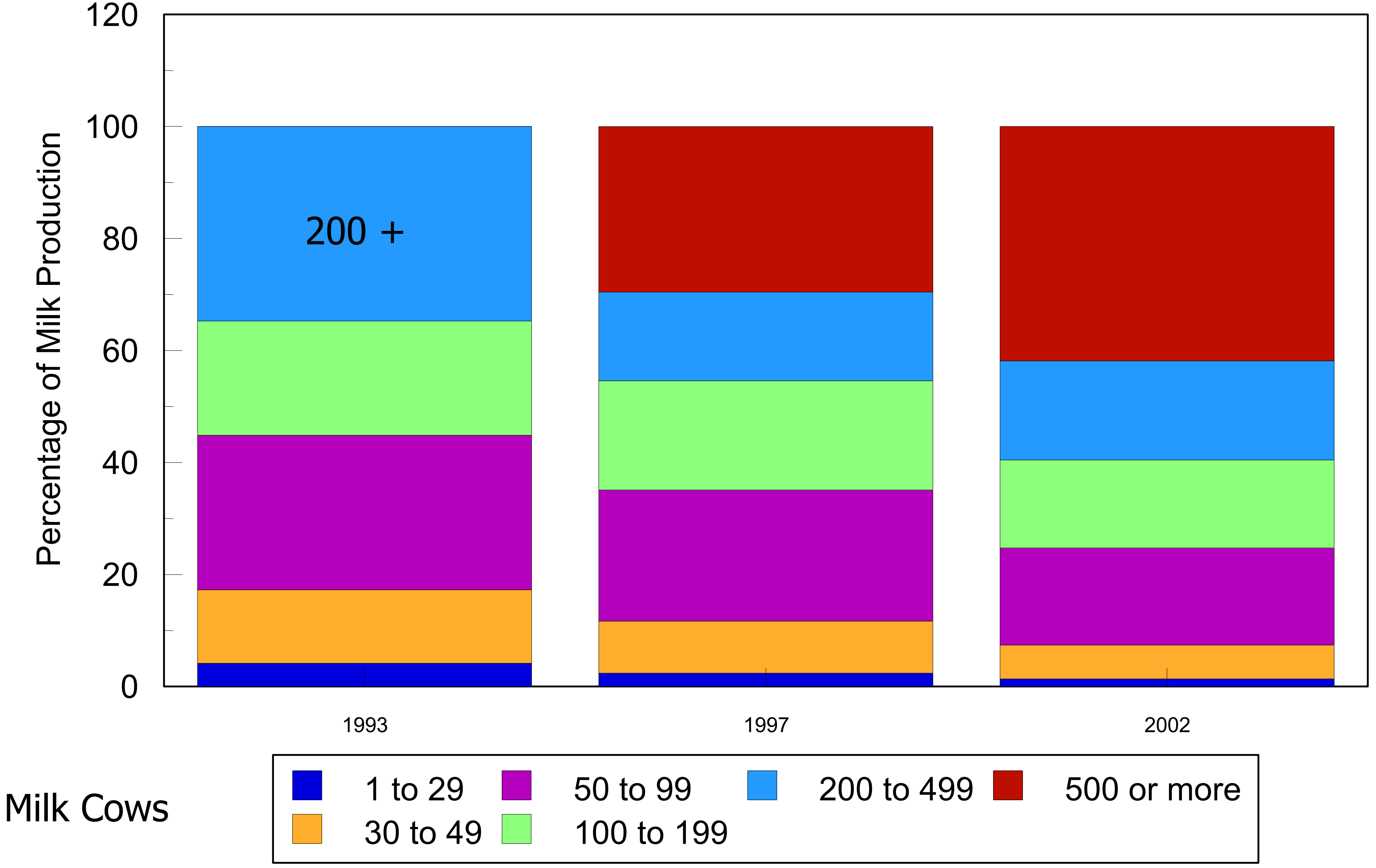
Beef structure conclusion

- Decline in cow/calf producer numbers but still many small producers
- Only discernable increase in cow/calf producers having over 500 cows in Great Plains and West
- Contract production of calves more talk than action
- Large decline in number of feedlots and larger decline in number of feeders
- Contract feeding extensive with diverse ownership
- Focal point of concern on packer concentration and ownership of feeders/feedlots
- Little cooperative feeding

Number of U.S. dairy farms, census years, 1950-97



Percentage of milk production by dairy size category, 1997-2002



Dairy structure conclusions

- Pervasive decline in dairy farm numbers
- Large increases in dairy farms milking over 500 cows
- Shift in production to West and Southwest, out of Southeast
- Cooperative market over 80% of milk under contract
- Minimum milk prices set by the government

Conclusions

- Trend toward fewer and larger farms pervasive
- Trend toward integration more pervasive in enterprises where government has not been protecting farm prices and income
- Contract production dominant in livestock and poultry, although integrator production expanding
- Region production shifts particularly significant in broilers and dairy

Implications

- Progressive trend toward integration extending to crops
- Progressive trend toward freer trade and globalization meaning potential for production moving out of United States
- Primary commodity spot market obsolete trading system

Extent of Integration in Agriculture

	Production Contracts		**Ownership**	
	1987	Latest	1987	Latest
Broilers	77	85	10	14
Turkey	54	56	28	32
Eggs	50	33	37	60
Hogs*	8	40	8	
Fed Beef	30		6	
Processing Vegetables	65	70	15	
Citrus	0		35	
All vegetables/ fruit/nursery		57		

* In 2001 it has been estimated that an additional 30 percent of the hogs are sold under a marketing contract.