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Section B

How Industrial Animal Producers Respond to Principles of Economics

Three Key Issues

- **Idea**
 - Large economy of scale operation
- **Reality**
 - Settled on a model to make the scale even larger
- **Basic economic law**
 - Farmers/business people always will maximize profit, i.e., business/farming is conducted so that costs subtracted from revenues is the largest number possible

Problems with This Law for IAP

- Competing with world protein market (chicken, beef, soy, etc.)
- Pork and beef producers cannot compete with chicken (especially labor and international regulatory costs)
- Price is not controlled by producer/farmer
 - Revenue is limited for the farmer/producer
- IAP producer is forced to find ways to reduce costs in order to increase profits

Reducing Cost of IAP

- Waste handling requires transportation/high energy costs
 - Tendency to spread manure as close as possible to the operation (e.g., CAFO)
- Waste regulations drive up cost
 - Lobby against regulation
 - Lobby to reduce funding for enforcement

Other Ways IAP Reduces Costs

- Shift costs to others
 - Failure to control air and water pollution
 - Closest neighbors to CAFO bear greatest costs

Other Ways IAP Reduces Costs

- Shift risk of IAP operations to the local community
 - E.g., selling notes to cover costs for loans

Other Ways IAP Reduces Costs

- Shift the costs of closure and remediation for the facility
 - Hog barns deteriorate quickly (12-year average lifespan)
 - Counties bear responsibility for cleanup

Subsidies to Increase Revenues

- Organizations formed among producers (major corporate agriculture) to lobby federal government in attempt to increase revenues
- “Pass-throughs”
 - Subsidies transferred to agribusiness

- National agricultural policy within other elements of national policy
 - Elements of policy are expressed in an economic sense through the national budget
 - Agricultural subsidies are an example of this policy process
- Subsidies established to ensure that the nation has enough agricultural production to sustain itself
 - A matter of national security
 - Assumes altruism
 - However, money is distributed by political processes

Subsidies: Who Benefits?

- Agricultural subsidies focus on wealthiest segment of market (corporate)
- Conventional sector largely exists without subsidies
- Solution?
 - Limiting the amount of subsidies any single farmer can receive to about \$30,000 would make a great difference for most conventional farmers

- Exists to ensure economic forces benefit corporate interests
- Conventional farmers are not protected by the Farm Bill
- Proposal
 - Eliminate Farm Bill and restore funding for land-grant colleges to advise and support conventional farmers

Increasing IAP Profit by Vertical Integration

- Controlling production from start to end
- The largest profit is at the end transaction, i.e., point of sale to consumer
- Buying and selling among companies owned by the same corporation
 - Step 1—corn grown for feed
 - Step 2—feed sold to hog producers
 - Step 3—hogs sold to processor
 - Step 4—product sold in store
- Prices become irrelevant between start and end of the process (Ramsey pricing)—essentially buying and selling from yourself
- Vertically integrated corporations enjoy pricing advantages
 - Can drive out conventional farmers