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Cattle-Feeding

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CATTLE FEEDING FUNDS: A BONANZA?

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Introduction

If there is outside capital in custom cattle feeding, how large a volume is it? Is this money in cattle for economic profits only or do some investors see cattle feeding as a tax management tool? What effect, if any, does this outside capital have on the cattle feeding firm? Does this type of investment benefit the professional cattle feeder and the cow-calf man? Does the capital in cattle feeding with income tax considerations help modify the cattle feeding cycle or accentuate it?

These are a few of the questions being asked about the nation's fed beef industry today by taxpayers and consumers, by public policy makers, by those in the cattle industry,--from the cow-calf operator to the custom cattle feedlot operator and the cattle feeder feeding cattle for himself. Much confusion has clouded this topic since it loomed on the horizon the past several years, especially as the rosy glow of euphoric earnings in the cattle feeding and cow-calf industry paled from their rosy hue in 1972 to sizeable losses in 1974. Perhaps the situation in the cattle feeding industry has not settled enough with the dust of time to allow full evaluation of the contributions of tax-sheltered cattle feeding investments to the industry, but this topic merits what attention we can give it and what information we can glean from this changing industry.

The author gratefully acknowledges the contribution of Dr. V. James Rhodes, Professor of Agricultural Economics at the University of Missouri-Columbia, for his direction of the research work through which much of this material presented in this paper was analyzed.

Cattle Fund Volume in early 1970s

A survey by the American National Cattlemen's Association in mid-1973 of feedlots of over 4,000 head size in the ten states having most of the feedlots of this size reported the existence of "outside investor" capital in cattle feeding. From the data, Ashfield concluded that approximately one-fourth of the nation's fed beef was coming from outside funds.[1]

In a separate study of the listing of publicly offered limited partnership funds cleared through the Securities and Exchange Commission, from mid-1969 through mid-1974, Scofield suggested total equity offerings of $420 million. While it is realized such funds are not always completely sold out to investors, yet their increase in offerings for each year following their first public listing in 1969 suggests they have met with success and enthusiasm.

If enough of the public funds and sufficient private offerings of cattle feeding funds (not cleared with the Securities and Exchange Commission) were marketed to total approximately $300 to $375 million of equity, such an amount is a sizeable share of the total equity financing in cattle. The majority of these funds are of a continuous nature beyond one turnover of inventory. Funds generally operate for a three year period with later offerings allowing longer investment periods.

Assuming for simplicity that the equity per head required by the lending agency financing the other portion of the cattle feeding investment with debt capital was $125 per head then it is possible to envision these funds financing approximately 3 million head of cattle on feed ($375,000,000 with $125 in equity per head = 3,000,000 head). With the nation carrying approximately 13 million head of cattle on feed at any one time during early months of the 1970s, these offerings of cattle feeding funds could be supporting nearly one-fourth of the nation's total fed beef supply, a statistic nearly identical to the estimate of

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[1] From Ashfield, George, "Texans Assess Grain Supply, IRS Ruling on Prepaid Feed," Feedstuffs, 45, (49):8, 62, Nov. 26, 1973.

the ANCA actual survey of feedlots in mid-1973.

Do Funds Favor Larger Lots?

Given these estimates of outside capital in cattle feeding, can all cattlemen cash in on the flow of outside money into cattle feeding? Can the Nebraska farmer east of Columbus and the rancher west of North Platte cash in on the outside investors wanting to finance cattle on feed?

Costs for floating the public funds that are cleared through the Securities and Exchange Commission run upwards from $150,000 for accounting, legal, printing and promotional costs before a fund reaches the hands of the investment brokerage firm in Omaha and Denver, New York and Chicago, Runner points out. This precludes any but the larger size feedlot firms from floating a fund that can reach out and bring in capital from a broad base. A 30,000 head feedlot firm would have costs of $5 per head of capacity for the initial expenses of issuing such a fund. Yet this falls to under $1 per head if one considers that such funds generally operate for three years (which covers six turns of inventory of cattle). Furthermore if the feedlot firm is of 50,000 head size, then a $3 per head capacity cost for floating the fund reduces to 50 cents per head fed (over a three year period of six total turns of cattle on feed inventory).

Nevertheless, one notes that the fund does require a size of operation beyond that attainable by many of the feedlots of the midwest region. With the funds, feedlots have merged into multi-lot cattle feeding firms. A tally of multi-lot cattle feeding firms in 1973 revealed that 25 firms had 75 feedlots, with one firm having 8 feedlots. This firm, Western Beef, has its operations scattered in lots in three states, some nearly a thousand miles apart, suggesting any economies of size in feedlot operation or marketing were overshadowed by

the economies of size for reducing the per head cost of obtaining outside equity by floating a publicly offered cattle feeding fund. Concentration levels in cattle feeding are not of interest to cattle men perhaps as much as they are to consumers at the meat counter. Yet, it should be noted that the multi-lot firm has given rise to relatively sizeable control of the nation's fed beef supply in recent years. In 1972 it was estimated by Meisner that 25 multi-lot firms marketed more than one-seventh (15 percent) of the nation's fed beef. One-eighth of the nation's fed beef is estimated to have come from 16 cattle feeding firms alone. The majority of multi-lot firms have originated since the late 1960's. Now, in the wake of the cattle cycle crash the multi-lot cattle feeding firms are realigning their operations. Feedlots are being sold to new owners. This will be referred to later, but this is not the concern of us presently.

History of Custom Lot Financing

Still, the smaller feedlot can and has been attracting outside investors through various arrangements of "partnering" with persons putting equity into cattle on feed to be fed by the custom feedlot. Nebraska and states to the west, south and north of it have been engaged in this arrangement for the past decade or longer. In fact, such practices may reach back into the early days of cattle feeding when the bovine replaced the bison as a source of meat supply for the military outposts along the Platte and in Sioux territory.

Rise of the Cattle Funds

Nevertheless, with the relatively recent rise of beef consumption in the U.S. to a rate per capita double that of a decade or more ago, the cattle feeding industry has expanded into new avenues that allow outside capital

to enter with relative ease. The advent of irrigated feedstuffs in the Southern Plains found the formulation of feedlots in the early 1960s that fed cattle for various local cow-calf men who became customers. Pooling of cattle feeding risks grew as local custom cattle owners in the feedlot shared in the marketings of several men in order to market cattle more frequently than one time a year. The feedlot industry of the Southern Plains borrowed the custom feedlot of the Western States instead of the smaller operation of the Cornbelt cattle feeder.

The cattle cycle bust of the early 1960s even left some of our moderate size feedlots seeking local mainstreet businessmen to invest in cattle on feed as a way to keep the feedlots filled and reduce the risk to the feedlot owner, Williams observes.

The dispersal of risk by custom cattle feedlots enabled them to grow in size beyond that feasible for a feedlot firm carrying the total investment in the cattle on feed. For simplicity, assuming a $100 plus equity investment per head, a 10,000 head feedlot could lose $1 million of equity in a downturn in the cattle feeding cycle. Dispersal of this risk amid many individual relatively small investors enables the feedlot firm to increase in size.

Public Limited Partnerships Contracts

The advent of the limited partnership enabled a feedlot firm to reach out to many individual investors. These funds, especially the public ones, of the $1 to $10 million equity size, specify that the investor be in the 50 percent income tax bracket, from his income from his normal professional practice or other business. In this way, the offsetting of one-half or 50 percent of the initial equity investment as an immediately deductible expense against other income, greatly reduces the investors potential loss from cattle feeding. Half

of the equity investment would have gone for income taxes if it was not placed in the cattle feeding program.

On an after tax basis, the investor has an after tax investment of $50 of equity per $100 of before tax investment. By timing the entering of cattle feeding funds only when they can be used to offset and reduce taxes due on one's other income, the investor in these funds can greatly reduce the actual risk of loss he has on cattle. In effect, the Internal Revenue Service assumes one half of the risk of loss.

The cash accounting method allowed for persons in agriculture allows expenses incurred to be deductible at the time they are incurred. This encourages the use of the equity invested to be allocated to purchase of feed. (The investment in the cattle can be financed in many instances by a loan from the bank.)

This equity investment in feed makes the cattle feeding investment particularly attractive to shift income forward from a year in which income from professional practice or business has favored the investor with a 50 percent income tax rate. The income is moved into the future period.

Successive programs can be entered into if the investor continues in the 50 percent income tax bracket. He can time his investments in order that he comes out of the cattle feeding operation in a year when his income tax bracket is below the 50 percent level. This can occur if his usual professional practice or business income is down or as he enters into retirement years. Meanwhile he has an equity investment in cattle feeding with a lower risk than if he could not deduct the equity investment immediately upon entering the program. If he loses his equity, a portion of it is lost to the Internal Revenue Service and a portion is lost to the investor. Thus, the risk of loss is lower for such an investor.

These limited partnership funds in cattle feeding grew from similar arrangements for financing petroleum well drilling in the Southern Plains where investors could write off their investment as an expensible item immediately. This deduction from the income account of the investor makes these partnership offerings more attractive than common stock purchases for an investor in a relatively high income bracket seeking to reduce the initial cost of the investment. In making a purchase of a common stock, the investor cannot deduct the cost of the stock (or his equity in the stock). In cattle feeding, the investor can deduct his equity. This reduction in his current reportable income can cut his current tax bill. In the months ahead, his investment operates in part on money otherwise due the U.S. Treasury but on which he is not paying interest. Again, if the cattle deal loses money, the losses can be shared in part with the U.S. Treasury.

We are not talking about outside investors in cattle feeding who come from mainstreet, the neighborhood, or among relatives who place funds in feeding cattle. We are talking about use of cattle feeding funds to average out one's other normal source of income over one or several years in order to reduce one's total income tax bill over time. This sizeable volume of tax shelter investment flows from the cattle feeding funds listed in national brokerage houses.

Few are questioning normal cattle feeding "partnering" as a normal business venture with the man on mainstreet or the cousin in the city. However, the possible implications from tapping the national investor market with public limited partnership offerings brings a new element to the nation's cattle feeding cycle and possibly to the ability of all types of cattle feeders to compete.

Cattle Profits and Tax Consideration

Capital comes into cattle feeding or any other business to earn a profit. Profits are calculated by a business firm and an investor on an after-tax basis. This is where we may find cattle feeders equal but some more equal than others.

Assuming there were two cattle feeders who had zero profits on their cattle feeding before considering income taxes, one might ask another question. What impact if any did income taxes have on their investment? If one of the investors in cattle feeding was able to save $10 per head on income taxes, then this may give him a higher return than the person not able to save on his income taxes by feeding cattle. How can this happen? Consider the investor who places $100 of equity in cattle with the total equity going for a deductible expense of feed purchase. The typical investor in the public cattle feeding funds is in the 50 percent income tax bracket. Consider that he follows the recommended practice of using the cattle feeding investment to move income forward into a future year when he has less total income from his normal profession or business and his income tax bracket is 40 percent. With each $100 of equity in the cattle that is moved forward to be reported as income in a later year when income taxes will be 40 percent the investor has $10 in income tax savings from the cattle feeding even though his $100 equity investment per head did not bring any real economic profit or loss in the cattle market. The investor showed a break-even operation in cattle but saved on income taxes. A $10 return on a head of cattle to one investor and a zero return to the other investor, with the difference stemming from a difference in income tax brackets only, leaves the returns from cattle feeding more advantageous to the higher income tax investor.

With lower risk of loss of his investment and with higher potential after-tax return from his cattle feeding investment, the illustration suggests that cattle feeding will be more attractive to one of these investors than to the other.

If profits are earned in cattle feeding, the investor pays income taxes on them. The higher his total income, the higher is his income tax bracket. But with the high income investor using cattle feeding funds to move income into years when he has lower income from other sources and thereby lower income tax rates, he can pay lower income tax rates even on economic profits from the cattle feeding program. The cattle feeding investment of the new type of cattle feeder in the public partnership funds may range from $5,000 to $100,000 or above. Yet it is a relatively small part of the total investment of such persons as they are generally directed to have only a relatively small portion of their funds in cattle feeding.

Up to now we have outlined the estimated size of the total outside investor funds in cattle feeding, the fact that only the larger size feedlot firms can float the public cattle feeding funds to attract a broad base of outside investors, and that the funds appeal to persons seeking to average out income between high income tax and lower income tax years.

It was suggested that cattle feeding becomes more attractive to the investor who can share more of the risk with the U.S. Treasury (as IRS was going to take half of the equity the investor invested in cattle anyway). The tax advantages may have caused an expansion of the outside capital at a time when many traditional cattle feeders in it for economic profits pulled back. This situation was described by one of the managers of the larger feedlots in the Taxes Panhandle in the fall of 1972. The traditional cattle feeders sensed they could not afford to lose like the person using cattle feeding funds to reduce income taxes over time. Such tax motivated investors bid feeder cattle prices

to where the traditional cattle feeder in the industry for an economic profit could not cover feeder cattle costs and feed costs, and still expect a profit. The potential tax saving made higher priced feeder cattle less of a road block to cattle feeding funds of tax shelter investors bidding to fill pens for those needing to move income from December into the following year.

Cow-Calf Operations

The cow-calf man found profits favorable from his annual crop of calves and expanded his cow herds. Tax funds caused higher prices for feeder cattle as funds entered the market to fill the contracts of investors for feeding cattle in the final months of a year.

Custom Feedlot Profitable

Operating a custom feedlot appeared more profitable than trying to make an economic profit on every pen of cattle. The feedlot firm had everything to gain from a full lot. Fees were charged on a daily or per pound of gain basis that gave profits to the feedlot firms. As the outside money flowed in, custom feedlot firms expanded in numbers and size. Cow-calf men expanded their operations as feeder cattle prices rose. Demand for feeder cattle increased with the need of custom feedlots to fulfill their custom feeding contracts for more investors in cattle feeding programs. This is especially noted in the Southern Plains. In one year's time feedlot capacity in the Texas area doubled from one million to two million head.

Veteran Cattlemen Became Concerned

However, back at the Colorado Cattle Feeders annual meeting in 1972, Kenneth Monfort was asking then who is going to pick up the pieces when the

outside tax shelter funds cause an overexpansion of the cattle feeding industry.

Effect of Progressive Tax Rate for Different Investors

Taxation regulations change the investment opportunities for various types of investors. For a parallel, consider municipal bonds. They have no income taxation on the interest received by the investor. These investments appeal to persons in sufficiently high income to make the after-tax return better than what they could get from a bond on which they paid income taxes for interest received.

In effect, with the flow of high income tax individuals toward local government bonds the bidding for them is at the height that lowers the actual return to a rate below what one could get in an ordinary bond. As a result, local government bonds are not attractive to many persons with average income levels who do not face a 40 to 50 percent income tax bracket. In effect, the rewards of the tax sheltered investment attract those most able to benefit by it. As a result, the bidding for the investment by these individual investors make the price of it high enough that the normal individual not seeking the tax savings cannot justify owning it.

Is the situation similar in cattle feeding? Does the flow of tax type investments cause the price for feeder cattle to increase at times to the extent that pure economic profits are not as high for the industry as would be otherwise possible? Economic theory suggests this to be the case. In the case of municipal bonds we have an illustration where such has occurred. But what do we think about cattle feeding? Does the income tax rate of 50 percent for the public cattle fund investor cause him to see the investment a bit differently than the farmer, rancher, or professional cattle feeder or man on mainstreet who does not deduct half of his equity invested in cattle from his years income and thereby reduce his total tax bill for that year?

One realizes that with a progressive income tax rate that a deduction for one in the higher income tax rate is different than for one in a lower income tax rate. Some farmers, ranchers and other cattle feeders feed cattle for economic returns and do not consider the industry as one to enter in one year and to exit from in another year for the purpose of "income averaging" in order to reduce their total tax bill over time. Yet this practice of using cattle feeding for income averaging is convenient to many with the contracts of the outside investor.

Did Cow-Calf Man Benefit?

The cow-calf man may wonder what is the total effect of the new funds in the industry on his profits over time. Did he get enough extra profits when prices were bid up to carry him through the cycle when profits were down as in recent months? Did, in effect, the cattle cycle crest and then crash with greater amplitude because of the outside investment money buoying up the bidding for feeder cattle in the early 1970s when the old professional and traditional cattle feeder was backing away from bidding at the feeder cattle auction?

Only conjecture can conclude an answer to the above question, of the total cost and benefit to the cow-calf man from the inflow of tax shelter funds.

Large Feedlots Face Underutilization and Financial Losses

The custom feedlot dependent on the mass-merchendising of the publicly offered limited partnership funds operated at lower levels of utilization in recent months. Cattle on feed numbers are down for those states having large numbers of relatively large size feedlots. This suggests that more than feed costs affected the cattle feeding system in recent months. Evidentlly, the broad base of investors in larger sized custom feedlots was eroded away during the months of cattle feeding losses. The traditional and professional cattle

feeder was there to feed the nation's beef while the feedlots highly dependent upon the public cattle feeding funds were hard pressed to continue. In recent months several of these feedlot firms operating with publicly offered funds were sold to new owners.

Future of Feedlot and National Public Funds

Until a time when cattle feed purchases would not be deductible from income when purchase is made, as allowed by cash accounting methods now allowed for farming operations, cattle feeding funds with tax shelter features can be expected to continue to be sold in the nation's financial centers and to fill the feedlots of the Plains and Western States. However, the source of these funds is somewhat more volatile than the usual professional cattle feeder or usual type of cattle feeder who looks at the enterprise for its profits over time instead of a way to enter and exit via a contract with an eye on shifting income from one year to another until ending up in a lower tax bracket.

Meanwhile, the large custom feedlot and the industry as a whole are highly subject to alternative investment opportunities of the nonagriculturalists with tax write-off programs in cattle feeding, oil well drilling, (and even longer-run capital gain type of investments of real estate buildings and farm land).

Some Reasons Cited for Cattle Tax Funds

Does Cattle Feeding Need Tax Funds?

Does the cattle feeding industry welcome this large pool of outside investment money that was tapped with the public offerings of the limited partnership? Many in the cattle feeding industry say that the industry needs outside money. Many thus feel that others than those in agriculture and in cattle feeding should reap the earnings from feeding cattle. Many feel that the rewards from feeding the nation's supply of beef cannot be reaped by those who raise the calves, the grain for the cattle, and those who operate the feedlot.

Does Shift of Cattle from Agricultural Control Parallel Poultry?

Does this reduce cattle feeding to the status accorded the poultry industry when it became the domain of firms not engaged in normal agriculture? For the need to seek what future direction the cattle feeding industry may take, we have little to turn to. One might consider the poultry area. Poultry was amassed from the farms of the nation into a few large layer and broiler operations with the possible profits taken from the agricultural sector. Yet the reasoning was different than in the case of cattle feeding, as poultry became an adjunct of feed supplier firms and poultry processors. Later as these firms found poultry unprofitable, the industry passed into an operation where now the layer hen is depreciated out as a tax investment write-off for higher income investors. They flocked in to finance our nation's suppliers of table eggs in a $6 million equity offering sold out between Christmas and New Years eve at the end of 1973.

In reverse to the poultry situation, only now is cattle feeding coming closer to more control by the feed suppliers with more feedlots being purchased by grain firms. Today, firms engaged in grain marketing are buying Southern Plains feedlots whereas earlier some larger feedlots grew as a place for farmers to market their grain in an indirect manner through livestock feeding. Now, it is possible cattle feeding as well as feedlots may be controlled by grain

firms if the tax shelter funds do not continue to flourish. In contrast poultry has passed from the farm to feed firms and then to the tax write-off system. Still, cattle feeding funds continue selling well, even in the not too rosy months of late 1974.

Cattle Feeding Funds Needed for Economies of Large Size Lots?

A final argument may be that cattle feeding funds make possible more lots of 10,000-20,000 head size and thus bring some possible economies of size in production and/or marketing. While some dispute that argument of economies of size in feedlots, including Johnson of Nebraska, let us assume it is true for the moment. But can we still conclude that farmers and rangers could not have the capital to finance the cattle for these feedlots and thereby reap the rewards from the industry?

Total Capital in Cattle Feeding Relatively Small?

Capital for feeding cattle was estimated to be only $4.5 billion in January 1972 by Meisner, up from the estimated level of $1.7 billion in January 1960, as cattle on feed numbers rose from 7 million head in January 1960 to 13.3 million head in January 1972.

It is estimated by Meisner that cattle on feed will demand as much as $8 billion in capital--both debt and equity by 1980. This assumes 32 million on feed at any one time and valued at $500 each. Yet estimates for total capital in agriculture run from a low of $247 to a high of $571 billion. This figure was calculated in 1967 before the rising inflation of the 1970s.

In effect, capital involved in cattle feeding is a relatively small portion of the total capital involved in agriculture. If outside capital is needed in cattle feeding then is it needed in other sectors of agriculture?

Cattle Feeding Needs Tax Funds to Expand?

It is sometimes argued that outside capital is needed in cattle feeding because of the expansion of the fed beef supply the past decade as

consumers increased their use of this food. With much of the growth of the cattle feeding industry of the past decade occurring in the Plains, the area did face financial squeezes on capital, especially when banks tightened their lending in response to the Federal Reserve Bank system attempting to curb inflation in the late 1960s. This occurred at a time when the feedlot expansion had doubled the cattle feeding capacity of Texas within a 1 year period. Thus, the feedlots turning to widely marketed public limited partnership funds occurred.

Was the flow of large size funds from tax sheltered capital into cattle occurring because of unique historical circumstances of the late 1960s or would the situation arise anyway from the evolution of the industry? Regardless of the answer to that question, does cattle feeding need the outside money now and into the future?

Cattle Too Risky For Agriculture?

It is further argued by some that cattle feeding requires outside capital because it is a highly risky operation. Those of you who have been through the cattle cycle well know the risk of the industry. Yet, those who invest in risky enterprises attempt to get returns of sufficient size to compensate them for the risk. Even lenders sometimes charge higher rates of interest on loans of higher risk. If farmers and ranchers and mainstreet investors in cattle feeding cannot come up with enough equity then others will. The rewards of providing the risk capital for this industry will go to those who do provide the equity.

Should Grain Fed Beef Be Subsidized?

A further question arises regarding the tax regulations that have led to use of cattle feeding as an indirect tax subsidy. Deducting equity invested in cattle feeding from current income to reduce current taxes expectedly results

in the equity investment provided in part by the investor and in part by the U.S. Treasury. National policy in the past has allowed such deductions for some socially desirable investments.

The question will be raised more in future months as the world allocates its food supplies for its growing population.

Do Funds Modify Seasonal Cycle?

One other point is proposed for keeping the cattle feeding funds. It is felt they operate on a year round basis in contrast to the farmer or rancher feeding out one crop of calves a year. Thus, the industry has a more steady market each season than if it were strictly a one time a year feeding out of beef. However, in response to this argument, one could hold that any cattle feeding program that continues to feed cattle could have the same effect. The tax incentive is not necessary to attract cattle feeders if the industry is economically sound. In effect, some of the tax funds in cattle cause increased bidding for feeder cattle in the fall, possibly in the same months that the traditional cattle feeder farmers would be bidding for feeder cattle. Might it be said that the tax shelter funds accentuate the seasonal cycle of demand for feeder calves in the fall? Also professional cattle feeders and cattle feeding clubs generally feed on a year round basis.

Other Agricultural Sectors Feared Tax Investments

Strangely, tree crop farmers in California found the tax write-offs of their initial year of tree crop plantings a mixed blessing. Seeing how it led to an overexpansion of the industry, the tree farmers called for phasing out the tax regulations allowing certain expenses to be deducted. Yet cattlemen are not yet at that stage. Many still call for a continuation of cash accounting

for all who feed cattle, even as the industry pulls out of a cycle of heavy losses and overexpanded cow herds.

Summary and Conclusions

In summary, it is not easy to make a tight case for arguments favoring the tax investment in cattle feeding. You in the industry will have to build a case for it. Meanwhile, taxpayers continue to question the equity involved in making cattle feeding more attractive to some investors outside of regular agriculture than to those in agriculture for economic profits alone.

Taxpayers And Consumers

Taxpayers and consumers (who outnumber farmers and ranchers and all cattle feeders) are questioning our food system today. As inflation continues and costs for energy and fuel drain more from the household budget, families no longer take the food system for granted. Meat production is coming under close scrutiny as many do not understand its vital role in an age when people debate the merits of feeding grain to livestock instead of to people in Pakistan or Africa. While this is not the place for me to take the time to defend the livestock industry and its vital contribution to increasing total food supply to mankind, yet the industry might try to respond to criticisms from the public by making sure there are no major weaknesses in the structure of the cattle feeding industry. As the nation's meat industry comes under attack, those interested in the industry might evaluate the views of non-cattle feeders who may be the ones who make the final political decisions that will affect the future of the nation's fed beef.

Paradox of Federal Income Tax Cattle Funds and State Corporate Farm Legislation

Nebraska is one of the six states in the Great Plains and Upper Midwest involved in current efforts to legislate a lid on the growth of outside control in agriculture. As the nation nears its bicentennial, and as the wave of mergers and conglomerates of the 1960s greatly changed the market structure for many of our everyday products, consumers are now asking if they want further market power amassed in food products of soups, soft drinks, cereals and baby food. In each case four firms control 90 percent of the market. This concern of consumers and taxpayers over market structure has even reached into the matter of food production at the farm and ranch level.

Nebraska farmers and ranchers stand between the family farm system of the Cornbelt and the larger corporate farm holdings of the California coast.

Nebraskans have, in the past, used the corporate form of agriculture. This corporate form of agriculture in Nebraska was not used to shift control of their lands and profits from the farm and ranch and from the community and its people. Instead, it was used to enable families to pass control over the land from father to son. Increased size and rising values of land in much of Nebraska has led to more and more farm and ranch families to call for the corporate form of ownership, it generally being a family corporation.

Now, Nebraskans in agriculture find the people and the political leaders concerned about who is going to control agriculture between the Missouri River and the Wyoming border. Many Nebraskans argue that corporate agriculture of the family type has a place. This, I can appreciate.

It appears the consumer and taxpayer may have lumped all corporate agriculture into a conglomerate type of agriculture. Judging from the people I talk with, the concern is not with family corporate agriculture but with the outside

corporate and conglomerate type of agriculture that changes the system of agriculture.

It is sometimes difficult to draw the line between a large family corporation in agriculture and the conglomeration of agriculture. Agricultural economists have voiced the view that you who have an interest in agriculture and also in Nebraska's communities, may lose out more readily to tax shelter type investors who come into agriculture than to corporations that come into agriculture. Yet, the two are somewhat intertwined. In the southern Plains, the earlier cattle feedlots were more of the corporate neighborhood and family type of operation. But eventually, these passed on to conglomerate-like firms, to Prochemco, to Mesa Agro and to other oil firms. Some of these same names acquired cattle feeding operations in Nebraska.

The nation has long called for wide dispersal of land ownership since the earliest laws for the distribution of land holdings, as evidenced in the Homestead Act which is memorialized at Beatrice in this state. As new interest focuses on matters of food, and farm and ranch, with the current concern over world food supplies, a growing population, and a return to fundamentals, you in agriculture in Nebraska will be called on to explain the trends developing in the ownership of the land.

Family corporation agriculture may be encouraged. But outside control of agriculture by the larger corporation and conglomerate and also by the tax sheltered type of arrangements will be of continued concern to the consumer and taxpayer.

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For a further analysis of this topic, the author refers the reader to "The Changing Structure of U.S. Cattle Feeding," Special Report 167, November 1974, by Joseph C. Meisner and V. James Rhodes, Agricultural Economics Department, University of Missouri-Columbia.