Farm Talk

by

Jerry Webb

Delaware Extension

Right after you pay $10 for a beef roast that isn't all that large, you begin asking yourself why farmers aren't making more money. I'm sure the casual consumer must feel there's some kind of economic imbalance when favored food items seem to cost so much. There's a great temptation to jump on the farmer for higher food prices, without really considering the complicated maze that's called agricultural economics. It's a whole discipline and it has to do with supply and demand and elasticity and a lot of other economic words. What it means to the farmer in the simplest terms is that he is a price-taker and not a price-maker.

That happens because he is in what economists call pure competition. That means there are lots of them, they produce an undifferentiated product and no one of them has any real impact on the market. Collectively, however, it's a different story.

When beef prices at the farm get terribly low farmers start cutting back on beef output. They sell steers at lighter weights, market some heifers, even cull their cows as a way of cutting their losses. The total effect of all that in the short run means more beef on the market and even lower prices. But then gradually as that excess works its way through the market, the farm situation starts to change. Fewer beef cows on the farm mean fewer steers and less beef available. And that means packers willing to pay higher prices and consequently consumers go from a period of record supply to one of moderation. Those factors show up on the cash register tape.

Unlike manufacturing, farmers can't increase beef output in response to better prices. Once cow numbers are down, it takes several years to build them back up. And for some beef men, by the time they get back into full production prices will be heading down again. It's like a roller coaster ride, with producers hoping the highs will go higher and last longer to cover the depth and length of the lows.

Some farm commodities experience wide swings in price and profitability. All phases of the livestock business have traditionally been that way. Anytime you involve a process that means animals must be born before they can be fattened for market, you increase the risk. For once a farmer decides to breed cows for production, he may be several years from market. His first decision to expand means saving back heifer calves that won't have their own offspring for at least a couple of years. And then those calves must be raised and fattened for several more months. By the time they reach market age the original decision to expand based on profitable markets may have gone sour.

On the other hand, a grain producer can decide once a year whether to grow corn, soybeans, barley, wheat, or several other crops, what proportion of each crop he will grow, and when he will sell it. Unlike the livestock producer, a grain farmer can store his crop for months, even years if necessary, until he feels the price is right. But when a fat hog is ready for market there isn't much leeway.

Even grain producers have their problems because they don't know what other grain producers are doing. Individually, they make decisions that collectively produce surplus. And a wet spring or a late frost can drastically alter the total crop. Dry weather in the West means higher grain prices in the East. And prolonged wet weather in the Midwest at harvesttime can spell economic ruin while at the same time elevating grain prices for other farmers.

Farming is a difficult, high risk business with some very high odds against success. The craziness of it is exemplified by the beef producer who continues to pour high priced grain into a steer that he knows will lose money. Each day as he watches the livestock market, he sees his losses increase and yet he continues to feed that steer in the hope of an eventual upturn in the market. That upturn seldom comes. In fact over a recent ten-year period beef men averaged a substantial loss. There were more bad years than good years, and the bad years were worse than the good years good! The net result was a financial disaster. And yet the hope of improved beef prices keeps them producing.

As we grumble at the meat counter about high beef prices, remember the farmer who produced the beef received only 93 cents for a pound of beef steak retailing for $1.59. That means 66 cents went to middlemen. And you can bet their profit margins have remained fairly good even when the farmers are losing their shirts. Why does this happen – because as I said in the beginning, farmers are engaged in pure competition. By definition and in practice that means they are price takers not price makers.

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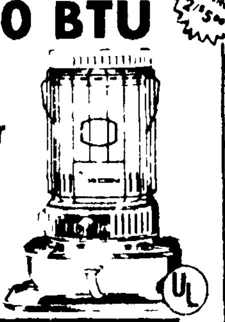

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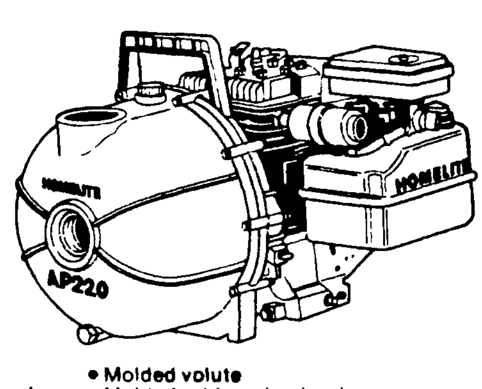

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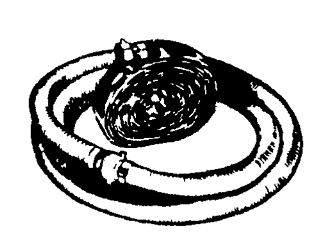

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