Pamukkale Üniversitesi Sosyal Bilimler Enstitüsü Dergisi (2009) 2/1

IMPACT OF THE DEVELOPMENT OF AGRIBUSINESS COMPANIES ON AGRICULTURAL SECTORS: The U.S. CASE

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Keywords: Agribusiness food sector contract farming

Anahtar Kelimeler: tarımsal işletme gıda sektörü sözleşmeli tarım.

Abstract

Development of big companies in the agriculture related sectors has important impacts on the food chain not only production and distribution but also techniques used on farming and conservation of the product in all around the world. This paper investigates the development and impact of the agribusiness companies by using the developments in the U.S as an example.

Özet

TARIM ALANINDA BÜYÜK FİRMALARIN GELİŞMESİNİN TARIM SEKTÖRLERİ ÜZERİNDEKİ ETKİSİ: ABD ÖRNEĞİ

Tarımla ilgili sektörlerde büyük şirketlerin gelişmesi ve bunların besin zincirindeki etkileri tüm dünyada sadece üretim ve dağıtımda değil aynı zamanda tarımda kullanılan tekniklerin ve ürünlerin saklanmasında da olmuştur. Bu yazı, tarımda büyük şirketlerin (agribusiness) gelişmesini ve onların etkilerini ABD örneğini kullanarak incelemektedir.

1. INTRODUCTION

After the Second World War, developments in the agriculture sector led to some implications on the food chain in the World. Agriculture and its sectors have affects on any aspects of food-chain from production to distribution, techniques on farming to storage of product via entrancing of big companies in global era. Since agriculture is primary income source for rural families, they are the first one being affected by those developments, as well as consumers, and underdeveloped non-industrialized, agriculture based economies of the world.

This paper focuses on the impacts and development of agribusiness companies and how they effects and being effected on the global food chain via marketing and farming of rural area using the US case..

2. DEFINING AGRIBUSINESS

According to George (1977), the term of "agribusiness" entered into the literature in the first half of the 1960s. Then, it coincided with the switch to vertical organization on the part of certain giant companies who were able to

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control the whole food chain from field to table. These processes of monopoly of agriculture conceptualized as "total market" in terms of agribusiness companies in both developed and underdeveloped countries. This term is used for both companies in the developed and underdeveloped countries.

Goldberg (1966) defines the term of agribusiness as "... all production and distribution of farm supplies, agricultural production operations on farms, and the storage processing and distribution of farm commodities and processed foods".

Agribusiness companies - as large-scale capitalist farming and food-processing organization and enterprise (producing fertilizers, pesticides or machinery) - share many characteristics of other advanced industries, which contains in the use of advance scientific process and technology to mass production techniques, from extensive integration of corporations and progress both vertical and horizontal. Therefore, it is possible to see, for example, a frozen food corporation having long term contracts with array large farms using computers to plan production of highly specialized produce to order, and being supplied with inorganic fertilizers and other materials by a company also owned by the food corporation.

3. IMPACTS OF THE DEVELOPMENT OF AGRIBUSINESS COMPANIES ON AGRICULTURAL SECTORS

Changes in agriculture had begun after the Second World War in the US and in the World. Farm machinery and chemicals have greatly increased the quantity of food and fiber produced and decreased the number of farmers necessary for their production. One of the results of this development is that many small farmers had to leave their farms and their farm jobs. During these processes, many farmers had left their land and lost their jobs under these new conditions. This agricultural revolution, according to M. Perelman (in Merrill, 1976:65), has had considerably disruptive impact on American society, where agribusiness first began to develop, on the rural environment in which it has occurred.

The conglomerate invasion of agriculture comes at a time when millions of farmers and farm workers have already been displaced by contributing to the problems of rural wasteland and congested cities (Merrill, 1976:42). According to Merrill, more than 100,000 farmers were quitting the land in a year, and more than 1.5 million of those who remain were earning less than poverty-level farm incomes.

Family farms from medium to large size whose annual sales were between $20,000 to $500,000 survived during earlier industrial and scientific revolution in agriculture, as Merrill points out. Nevertheless, after industrial and scientific revolution, they began to experience financial revolution in which the traditional functions of the food supply system are being reshuffled, combined and coordinated by grant corporate.

By the development of agribusiness companies, the characteristics of farming had changed. The nature of agriculture shifted from extensive to intensive farming. As D. Goodman and M. Redclift (1991) point out, independent

expansion of capital and consumer goods industries, rapid technical change and productivity growth, monopoly market structures, the trans-nationalization and exchange, and mass consumption of standardized commodities are the major changes in agriculture. Merrill (1976) points out that "Farming is moving with full speed toward becoming part of an integrated market-production system."

Many of the largest American companies, such as Standard Oil, Kaiser Aluminum, and Southern Pacific, have entered and diversified into agriculture (George, 1981). These new farmers/corporations does not only grow crops and raise animals but also are in processing and marketing businesses. In other words those companies are con producers, processors, and sellers. For example, Tenneco can plow fields with its own tractors which can be fueled its own oil. It can spray its crops with its own pesticides and utilize its own food additives. They can process their food products in their own plants, package them in their own containers, and distribute them to grocery stores through their own marketing system.

Invasions of those conglomerate companies into agriculture have displaced millions of farmers (Goodman, 1991). According to Goodman, more than 1,000,000 farmers were quilting the land and more than 1.5 million farmers' earnings were remaining less than poverty level farm income. Goodman says that about 50,000 farmers or farm companies over 2.9 millions supply 200,000 of them produced more than half of the U.S.'s food supply during 1970s.

Agribusiness companies have an oligopolistic structure. For every major food category, several companies share most of the market. For example, in milling the top four companies hold 75% of the market, for bakery products it is 65%, for milk and milk products 70%, processed meat 56% in the U.S, such as SONACOS, AMPC, ASC, Animex, Foremost Farms, Agri-Mark, Hilmar and ConAgro Diary. Although the U.S. census counts 2.9 million farmers, 50,000 grow one-third of the country's food supply and 200,000 produce more than 50 percent of all food in 1980s (George, 1981).

It was assumed that modernization and industrialization of agricultural sectors would cause decrease, however, food prices in some areas of food production, such as poultry, corporate takeovers did not result in lower consumers prices. Nevertheless, for various food products corporate farming has not lowered grocery costs because of raw food materials is not a significant factor in determining final retail prices. For example, the cost of a food container is sometimes more than the farmer receives for the food packaged in it.

Such development, the type of food system, which can be defined as the totally of tangible and intangible means employed by a given human community for the production, conversation, distribution, and consumption of food, are being put together by capitalist corporation, frustrates and frightens independent farmers (George, 1984). They carry element of food business acquiring market power. At one side, they confront the buying power of grant food chains. On the other hand, they also must compete with conglomerated that they can take profits either from production, processing or marketing. Usually, individual farmers do not have those options.

George (1981, 1984) compares older food companies with the new agribusiness on their way of making profit. The older food companies were primarily food companies and used to make money somewhere in the food distribution system. However, this is not the case for new agribusiness companies. For new agribusiness companies, millions of dollars in agriculture add food-related investments that may represent only a fraction of their total holding. They usually utilize a variety of federal tax provisions that permit them to benefit from tax-loss farming and then make profit again by taking capital gains from land sales. In this case, agribusiness even may find their food investments, very profitable without earning anything from them. So that, the profit may come from not only land speculation but also federal crop subsidies and generous federal tax laws (George, 1981:44).

Additionally, the grant competitors also benefit from a variety of government subsidies on water, crops, and income taxes. For example, as Goodman (1991) indicates financing the entire operation are the resources of a conglomerate with billions in assets, hundreds of millions in tax-free oil income, and interests in banking and insurance companies. He presented Tenneco example, which had in 1969 gross oil income of 1464 million and taxable oil income of $88.7 million. He also adds that due to federal tax breaks, Tenneco not only did not pay any tax, but also had a tax credit of $13.3 million.

It was predicted that if agribusiness continue to get bigger concentrated and increased efficiency, in the long term most of the family farming must stop their production. As a result of that, there has been a rural-urban migration, which undermined the rural life. According to R. Merrill, between 1960 and 1970 more than half of the rural counties suffered from population declines. Between 1970 and 1980 about 800,000 people a year migrated to cities in the U.S. All these population decreases gave rise to congestion pollution, welfare problems, crime, and the other problems in cities. This trend continues during 2000s not only in the U.S. but also all around the world.

Although the new corporate farmers control most of the food supply system, they left some areas to family farmers, such as corn, wheat, and other grains even larger acreage, machinery, credit, and higher prices are needed for the family farmer to stay beneficial in business.

Since the development of agribusiness, these companies began to compete with family farms. However, this content is incredibly unequal. There is a company whose assets is in billions, ability to employ its own land, tractors, pesticides, oil, processing plants and marketing system. On the other side, there are small farmers trying to hold on in the face of a dilemma. For example, if the processors gain control of, such as cattle feeding, then mid-western family farmers would have to earn all their income from growing corn, wheat, and soybeans (George, 1977). It is their fear that they can not survive if their only function is to provide grain for an integrated food system in which most profits are taken further up the food chain of animal feeding, processing, marketing and retail sales.

There were different responses to those developments in agricultural sectors. For example, The National Farmers Organization tried to protect the family farmers from the forces, giant food chains, food manufactures, and conglomerates who are trying to bring to agriculture the industrial bigness "efficiency", and control.

In most cases agribusinesses are not interested in selling to consumers the items in bulk that have undergone little processing and which cannot command highly profitable price. The goal is to add to the cost of food, but not its real value. In other words, added value to the food products in the transformation process. The more steps a company can add to the final products means that company can get more profit.

According to George (1981), agribusiness spends less on research and development than any other industry in the world. Rather, they spend on to reduce their costs and to increase their share of consumer purchases, but not to better food and nutritional value. Most of the research carried out from the agriculture, were directed by agribusiness companies or by university working for them. Therefore, it is not surprising that all the efforts are directed to encouraging the kind of farming, which would use optimum quantities of inputs. Then it encourages more and more use of technology. Consequently, there is greater sub-servense to banks for farmers.

In general, agribusiness companies spend less on research and development than any other techniques to reduce their costs and to increase their share of consumer purchases. They do not invest on better food and nutritional value.

4. CONTRACT FARMING

Food industry has been changed toward vertical integration (George 1981) which means that individual companies attempt to control as many parts of the food industry as possible. Until 1970s, most companies began corporate farming. However, later they decided that it was better for their profitability if they let the real farmers take the risks of inclement weather and blights.

Therefore, they developed contract farming system, which link independent family farmers with a central processing, export, or purchasing unit. This purchasing unit regulates prices, production practices, and credit arranged in advanced under contract, thereby replacing open market exchange. In the U.S, contract production has emerged as a centerpiece of contemporary agribusiness companies. Contracting or vertically integrated agribusinesses in the U.S. agriculture exceeds vertically integrated agribusinesses in terms of gross output. By 1980, one third of the U.S. farm product in value was produced under some form of contract (Berstein, 1990).

Although for agribusiness companies the contract is the embodiment of market mutuality, freely entered, the contract allows growers to make better use of their specific endowments in imperfect markets and to arrive at combinations of income, effort and risk reflecting their resources (Bowler 1992), According to Bowler, contracting represents "a major front along which capitalism advances into the sphere of family or household production". He points out that

contracting is increasingly a state strategy often in alliance with local and international capital, which is also aimed by the monopoly agribusiness companies.

During 1970, more than 50% of the total food and food related production were taking place under vertical integration or under the production contract. In other words, either the company runs the farm itself or it signs up farmers and tells them what to do. According to Bowler (1992), the higher integration was seen in vegetables for processing by 95%, broilers by 72%, sugar 100%, and citrus fruits by 85% and fluid milk by 98%. In 1985, about 75% of the total U.S. food supply was produced through vertical integration or under contract to a food company in the U. S.

5. AGRIBUSINESS COMPANIES AND THIRD WORLD COUNTRIES

Companies that held most of the food industry in the U.S. are multinational. Almost all of them have connections with other, especially third world countries in the process of food production, processing, and distribution.

Agribusiness in Third World countries, according to George (1977), uses a "host" country's land and labor for producing food but in return, they satisfy national needs. They produce usually for export to the developed countries' markets, which pays the most for their products. She compares agribusinesses with mining enterprises because she argues that agribusiness is "extractive industries."

For agribusiness, investment in less developed countries seems very profitable because of the increasing world food prices. Since food is essential need for both developed and underdeveloped countries, it seems investing in the agriculture is very profitable. According to George (1977), there are many evidences that support the idea that agribusiness is destroying everything it touches, such as local employment patterns, local food-crop production consumer tastes, and socio-economic lives of villages and traditional family structures.

On the other side, she also explains how agribusinesses see themselves: "In two words, they see themselves as the world's salvation" (George, 1977:133). Agribusiness companies claim that they are capable of solving world's hunger problem with their "profit-oriented approach to increasing food production in the less developed countries provides the only mechanism for real progress and decisive action".

Agribusiness companies, in international level, are usually supported by U.S. government, World Bank and IMF (George, 1981).

The effect of agribusiness in developing countries similar that happened in the U.S. number of farmers decreased in those countries where agribusiness invested. Additionally, consumers also suffer because of the agribusiness giants' price policies. In general, small firms do not survive in food industry, and big ones prosper through sheer size. Lastly, consumers' diet has changed enormously.

6. CONCLUSION

Impacts of the development of agribusiness companies on agricultural sectors are seen in several ways. Some of them are positive and some of them are negative in their character. First of all, the number of farmers decreased in those countries where agribusiness invested, including Turkey. On the other hand, consumers also suffered because of the agribusiness giants' price policies. In general, small firms do not survive in food industry, and big ones prosper through total size. Another important point is that, since food processing technology is relatively uncomplicated, as the same for all companies, the only way to get ahead is through marketing and packaging techniques and product differentiation. All these require huge advertising budgets and eliminate competition from small companies, who have not the means to advertise. Therefore, packaging, marketing and advertisement costs are added to products' prices.

Top few companies constantly control the process of production, manufacturing, and distribution; in other words limited number of them control field, factory and shop. They do not use their profits to lower prices; rather they use them to buy up more firms and so to increase conglomeration. Since they control almost every step of food industry, it certainly affects the consumers.

Last two implications of agribusiness in both developed and developing countries can be summarized as following: Firstly, relations of production and exchange become commercialized, which was oriented more directly to the maintenance of family livelihoods. Secondly, the environment suffers as increasing numbers of families extracting a livelihood, since the land available to them is diminishing in size and is deteriorating in quality because of the over-use.

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