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Initiative 300 and the Structure of Nebraska’s Cattle Feeding Industry: Did the Law Make a Difference?

In a recently completed study on the effect of Initiative 300 on the structure of Nebraska's cattle feeding industry, agricultural economists, Azzeddine M. Azzam from the University of Nebraska-Lincoln and John R. Schroeter from Iowa State University, in cooperation with UNL Ag Law specialist, David Aiken, found no statistical difference between how the size of feedlots has evolved in Nebraska and how they've evolved in other major cattle feeding states (Colorado, Kansas and Texas) that have no restrictions on corporate investment in cattle feeding. All four states studied have seen a trend of larger feedlots supplanting small-scale operations. The study was funded by a competitive National Research Initiative grant. USDA’s Cooperative State Research, Education and Extension Service awarded the grant last year to the three professors.

Market structure is represented by the proportion of total feedlots in a state falling into each of the following size categories of capacity: less than 1,000; 1,000 - 1,999; 2,000 - 3,999; 4,000 - 7,999; 8,000 - 15,999; 16,000 - 31,999; and greater than or equal to 32,000. “Evolution” of market structure refers to the manner in which the size distribution changes from one year to the next. Thus, the focus of the study is on the relative importance of "big" vs. "small" feedlots in Nebraska, rather than on the overall scope of cattle feeding activity in the state.

A casual inspection of the raw data reveals that, in 1980, two years before Initiative 300 was adopted, 97 percent of Nebraska’s feedlots had capacity of fewer than 1,000 head. Although they still make up by far the...
largest share of the state’s feedlots, the percentage of
the state’s cattle feeding industry in such small opera-
tions has steadily declined since then, to 86.6 percent
in 2000. Much of the shift in Nebraska has been to
feedlots with capacities ranging from 1,000 to 3,999,
which comprised 3.3 percent of the total in 1980 and
nearly 9 percent by 2000. A similar evolution from
small to large feedlots was seen in the other three
states over the same period, although the latest num-
bers available from Colorado, Kansas and Texas are

However, the study emphasizes that casual in-
spection of the data is not enough to gauge the effect
of the Initiative. One must not only statistically com-
pare the evolution of market structure across the four
states and within Nebraska between the pre- and
post-Initiative 300 time periods, but also control for
factors other than the Initiative that could be respon-
sible for that evolution.

For any who might have hoped that Initiative 300
would slow the trend toward larger size feedlots, and
increase the role played by small-scale feedlots, the
results of the study are discouraging: The Initiative
does not seem to have made a difference.

For those indifferent between large and small
feedlots, as long as they are "family”owned, the
findings of the study are encouraging: It is possible to
regulate the structure of ownership without having the
(potentially adverse) impact on size structure that the
critics of anti-corporate farming laws claim.

Also, if one believes that the prevailing trend
toward large-scale operation is cost-efficient, the
findings could be good news for consumers concerned
about higher beef prices. Keep in mind, however, that
there may be other implications of size structure,
beyond cost efficiency, about which the public might
be concerned. The environmental impact of large vs.
small feedlots is one example.

Concerning the reasons for finding no statistical
difference between the feedlot size distribution trends
in Nebraska, on the one hand, and in the other three
states with no applicable anti-corporate farming
restrictions, on the other, the study mentions three
possibilities:

1. The kind of corporate investments that are barred
in Nebraska are not attractive and, in fact, are not
occurring in other states either. Anecdotal evi-
dence suggests, however, that non-family farm
corporations are major players in the cattle feeding
industry in other states.

2. It may be that Initiative 300 restricts entry of new
corporate-owned feedlots but does relatively little
to constrain incumbent feedlots. A grandfather
clause exempts corporate-owned feedlots that were
already in operation in November 1982. It is likely
that many feedlots currently operating in Nebraska
are grandfathered corporations and the only re-
striction to which they are subject is a prohibition
of additional land acquisitions. Some of these
grandfathered corporations may have been able to
expand their operations without adding new land.

3. Initiative 300’s definition of authorized "family-
farm” corporations allows for sale of up to 49
percent of the firm's stock to non-family-member
investors. This feature improves the access to
capital for family-farm corporations and may
offset at least part of any capital-raising disadvan-
tage, relative to non-family-farm corporations, that
they otherwise would have faced.

The complete technical report is available at the
website of the Center for Agricultural & Food Indus-
trial Organization:
http://agecon.unl.edu/cafio/research/workingpapers/I300.pdf.
Constructive comments are welcome.

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