Economic & Sociological Impacts of Changes in Agricultural Contracts on Rural Communities

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www.cfra.org

The Future of
Contracts in Agriculture

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Agricultural Communities

"Swept Away: Chronic Hardship and Fresh Promise on the Rural Great Plains"

Center for Rural Affairs, June 2003

- 1990 rural workers earned 58% of regional metro workers; 2000 rural workers earned 48%
- The most ag dependent counties have a poverty rate 60% higher than metro counties

"Swept Away: Chronic Hardship and Fresh Promise on the Rural Great Plains"

Center for Rural Affairs, June 2003

Common characteristics to all ag based counties

- Population Decline
- Greater Poverty
- More Widespread Poverty
- Low Income and Earnings
- Persistent Low Income and Earnings
- Reliance on Unearned Income

“Swept Away: Chronic Hardship and Fresh Promise on the Rural Great Plains”

Center for Rural Affairs, June 2003

Strong Entrepreneurial Character

Ag-based counties grew nonfarm small businesses and self-employment at equal or greater rates to metro counties

(nonfarm proprietorships outnumber ag proprietors in ag based counties)

Recommendations

- Create development policy specifically for rural communities, not transplant of continually failing urban models
- Increased support of programs that provide lending capital and technical assistance to micro enterprise and small businesses

Recommendations

- Increased support of “New Generation Agriculture” – a model of family-scale agriculture linking farmers and ranchers to consumers through cooperatives, community based value-added activities, and direct marketing
- Integration of conservation programs and community development to realize economic advantage from a resource advantage

What Have Others Found?

The Rural Development Institute University of WI at River Falls

- Families in medium-sized cities spend 54% of their money locally, while moderate size farms spend 75% of their money locally.
- One moderate size farm with a gross income of $200,000 is worth **$720,000** to the community and is equal to the impact of **8.3 households** with $40,000 annual income.

Virginia Tech University

- Family livestock farmers make 70% of purchases within 20 miles of their farms
- Industrial farms make 40% of their purchases within 20 miles of their farms

Walter Goldschmidt

1946 report to the U.S. Senate Special committee to Study Problems of American Small Business

- Communities surrounded by larger enterprises had a lower standard of living and quality of life than communities surrounded by smaller scale agriculture

Dean MacCannel, University of CA

1983 report to the Office of Technology Assessment of the U.S. Congress

"Everyone who has done careful research on farm size, residency of agricultural land owners and social conditions in the rural community finds the same relationship: As farm size and absentee ownership increases, social conditions in the local community deteriorate."

Dean MacCannel, University of CA

1983 report to the Office of Technology Assessment of the U.S. Congress

"We have found depressed median family incomes, high levels of poverty, low education levels, social and economic inequality between ethnic groups, etc. associated with land and capital concentration in agriculture. Communities that are surrounded by farms that are larger than can be operated by a family unit have a bimodal income distribution, with a few wealthy elites, a majority of poor laborers and virtually no middle class."

Contracts in the Great Plains:

Pork Entrance

USDA ERS April 2002 Report

"Vertical Coordination of Marketing Systems: Lessons From the Poultry, Egg, and Pork Industries"

- Prior to the 1990s farrow-to-finish operations with fewer than 1,000 hogs were most common production method.
- Especially since 1989, U.S. hog production has been shifting to highly specialized, large scale farms.
- These developments led to investments with few alternative uses and few alternative users, or relationship-specific investments, particularly in regions with expanding production.

USDA ERS April 2002 Report

“Vertical Coordination of Marketing Systems: Lessons From the Poultry, Egg, and Pork Industries”

- As transactions become more relationship-specific, vertical integration will become more prevalent.
- Vertical integration and contracts that give the contractor more control over the producer or that respond automatically to changing conditions will become more common.

USDA ERS April 2002 Report

“Vertical Coordination of Marketing Systems: Lessons From the Poultry, Egg, and Pork Industries”

- From 1993 to 2001 – hogs sold through contractual arrangements increased in share of total hogs sold from 10% to 72%
- From 1978 to 1995 – farrow-to-finish operations fell from 78% of all U.S. hog farms to 35%
- From 1981 to 2000 – the number of U.S. hog farms fell from 579,000 to 86,000

What Have Others Found?

Dr. Mike Duffy
Iowa State University

- Hog farms in the Iowa Farm Record Systems gained no additional efficiency as they grew beyond 2000 head.

Pork Packers CR4

<u>February 2002 = 59%</u>

1. Smithfield
2. Tyson (IBP Inc)
3. ConAgra (Swift)
4. Cargill (Excel)

Note: Including Farmland Industries and Hormel Foods created a CR6=75%

Pork Producers CR4

<u>February 2002 = 46%</u>

1. Smithfield Foods
2. Premium Standard Farms (ContiGroup)
3. Seaboard Corp.
4. Triumph Pork Group*

*Farmland provided management and genetics for Triumph

Hendricks, M. and Heffernan, W., *Concentration of Agricultural Markets,* Univ. of MO, February 2002. www. Foodcircles.missouri.edu/CRJanuary02.pdf

Illinois State University, 2000

- Several models developed here consistently suggest that large hog farms tend to hinder economic growth in rural communities
- Economic growth rates were, in fact, higher in communities where traditional family farm hog production was dominant

Iowa State University & University of Iowa, 2002

- Air emissions from industrial livestock operations constitute a public health hazard, by causing respiratory and eye illness symptoms.

USDA/ARS

- The Swine Odor and Manure Management Research Unit, National Swine Research and Information Center reported in 2001 that antibiotics and antibiotic resistant bacteria are transferred from industrial swine confinements through the air.

Iowa State University, 2003

Falling Property Values

- 11% within ¼ mile of a livestock facility
- 8% for homes within a ½ mile
- 3% for homes 1 mile away

A 2003 Penn State University study found large-scale animal facilities reducing property values by 4% when within a ½ mile--a more depressing effect than even sewage treatment plants

Judicial Actions

- January 8, 2002, an Iowa judge awarded \$100,000 to Joseph and Linda Gacke in a ruling against Pork XTRA, LLC, acknowledging that the Gacke residence lost \$50,000 in value due to the corporate hog confinement established nearby.
- February 2002, Nebraska Court of Appeals verdict awarded Bruce Livingston a 30% reduction in his residential property taxes due to the 15,000 hogs he feeds ¾ of a mile from his home.

Conclusions

- Contract ag and large-scale livestock production are directly linked
- Agriculture based communities in the Great Plains states are suffering and contract agriculture can by no measure ascertainable be shown to alleviate the economic and social problems.
- The evidence suggests the opposite, that the expansion of contract-ag in the Great Plains states is contributing to and exacerbating the problems (farm loss, property value and tax receipt loss, potential environment and health costs)

- Contract ag and vertical integration does protect firms from the rigors of vigorous and continuous competition. But is there social benefit from that?
- Society benefits from maintaining a large number of independent, owner operated family farms and ranches. A healthy and stable community depends not on the number of livestock being produced, but on the number of livestock producers living and working there.

Recommendations

- Create development policy specifically for rural communities, not transplant of continually failing urban models
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- Integration of conservation programs and community development to realize economic advantage from a resource advantage

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