

NEW PRODUCER ALLIANCES AND RURAL PLACES

- Farmers and rural communities in farm dependent regions face challenges from external forces that are shaping their economic prospects. These include
 - • Increased heterogeneity in size and location of production;
 - • Rising uncertainty from farm policy, technology, global markets, environmental concerns and food safety regulations;
 - • Changing product markets from integration on the supply side and demand driven issues from changing consumer tastes and preferences in food attributes;
 - • Reductions in the average return to farmers. (Cook)

Babcock, Herriges and Secchi (2003) “Living with Hogs in Iowa:”

- 1980: 65,000 farms in Iowa with an average of 200 hogs per farm
- 2002: 10,000 farms in Iowa with an average of 1400 hogs per farm.
- Increase in concentration of ownership—“what was once the smell of money is now the smell of someone else’s money.”
- Increases in lawsuits to enforce air and water pollution standards.
- Concentration of finishing operations – more central office purchases of feed, vet services, other supplies -- fewer communities benefit --- many out of state while local areas bear externalities – odor, etc.

But, Some Argue Local Linkages are Strong with Meat Packing Plants

- Manufacturing (VAM) of food and forestry products (Bowers and Gale. 1998: 25). Poultry processing generates more jobs, on average, at each processing plant (467 per plant) than any other kind of VAM plant. Meat processing is second in jobs generated per plant (370 per plant).
- While average pay in these plants tends to be lower than the average pay in manufacturing, the average payroll is higher in meat products than other VAM. Each of these characteristics – large number of employees and payroll per plant, and large volumes of purchases of local inputs –means that meat and poultry processing plants can have more significant impacts on the local economy than other VAM plants.

Furthermore....

- Meat products plants have the added benefit of strong linkages to the local economy and should provide larger local multiplier effects than other food processing manufacturing plants. In terms of economic impacts on the local economy, both meat processing and poultry processing stand out as key sectors.
- Meat processing plants purchase more material inputs per plant (about \$32.5 million in 1995) from local sources (within a one hour drive of the plant) than any of the 25 industries in value added manufacturing
- By these measures, meat and poultry processing are among the top four “high local economic impact” VAM industries. (Bowers and Gale. 1998: 25).

Larger Meat Products Plants Create More Net New Jobs than Small Plants

- Net job creation rates (creation less destruction) are much higher in rural medium and large size plants than they are in their metro counterparts.
- Large and medium sized meat plants in rural areas create many more jobs than they destroy. In urban counties, the net job creation rate is about zero for mid sized plants and 4.9 percent for large plants.
- In contrast, rural plants are adding jobs (net) at about a 3.7 percent annual rate in mid size plants and 11.8 percent rate for the large plants.
- Rural areas now have more large plants and are generating net job growth at over twice the rate of their urban counterparts -- leading to the increased rural shares of employment in meat packing (Henry et al 2003).

Table 1. Rural-Urban Changes in the Location of Meat Products Plants, 1963-92

<u>Meat Packing(SIC 2011) - Characteristics across the Beale continuum</u>												
Beale Code	<u>Employment Shares</u>				<u>Value-Added/ Worker (1,000)*</u>				<u>Hourly Wage*1992 \$</u>			
	<u>1963</u>	<u>1972</u>	<u>1982</u>	<u>1992</u>	<u>1963</u>	<u>1972</u>	<u>1982</u>	<u>1992</u>	<u>1963</u>	<u>1972</u>	<u>1982</u>	<u>1992</u>
Metro												
0	36.0%	23.6%	16.6%	10.8%	44.00	69.28	65.68	54.08	12.82	14.58	13.22	9.76
1	1.6%	2.5%	2.9%	3.0%	39.09	43.33	58.72	48.83	7.97	9.72	8.95	8.04
2	23.7%	23.2%	20.6%	13.2%	42.83	54.90	53.87	42.72	11.94	14.47	13.8	8.08
3	17.6%	20.8%	19.8%	21.2%	47.15	51.48	59.04	66.79	12.61	14.76	13.92	8.37
Non-Metro												
4,6,8	10.5%	14.2%	17.0%	20.9%	43.60	57.89	74.17	74.87	12.08	14.39	13.28	9.15
5,7,9	10.6%	15.7%	23.0%	30.8%	44.00	58.07	64.83	47.50	11.19	13.06	13.42	8.19

Large Meat Processing Plants as Rural Development?

- In Sum:
- Since the 1960s, the organization of production in meat products has shifted toward large-scale processing plants that are integrated with feedlot operations and/or contracts with “growers” of animals.
- Thus, the economics of production suggests that firms charting the future course of industrial organization in meat and poultry processing envision a few large plants
- Still, some rural development analysts seek ways to promote industrial districts and flexible networks of smaller establishments. “Smaller is Better” -Local control

Consequences for Integration and Increased Size of AG?

Allen (2003) in survey of Nebraska residents found an increasing animosity toward production agriculture:

- 30% prefer no hogs in Nebraska
- Need moratorium on consolidation of agriculture.
- Agriculture not attached to rural places or environment – leads to zoning restrictions
- CFOs increase community tension
- Long run increase in agriculture concentration means a loss of sense of community; environmental degradation; increases in restrictions on agriculture and a lack of flexibility to adapt to change.

Jobs for whom? Environmental Issues

- “Big Ag” economic growth in rural communities has and is likely to continue to raise both environmental and social problems that will be difficult to solve (see Stull et al. 1995 for some case studies).
- Water pollution from lagoon spills and odor “spillovers” to residential areas proximate to larger processing plants and large “growers” of animals are the kinds of problems that are serious enough to get the attention of state legislatures, EPA and the legal community.

New jobs, New people

- In-migration of labor to rural areas to work in meat and poultry processing plants is often substantial. By shifting the local labor supply function to the right, in-migration may be associated with lower real wages in these industries. The dramatic decline in real wages in both rural and urban counties in meat packing and other meat processing since 1980 suggests that these jobs will not generate large increases in rural per capita incomes.
- In-migrants to rural areas should help sustain local trade and service establishments in rural counties of states that have experienced population losses over the last decade. Recent work by Tolbert and others (2003) found 60 rural counties that would have lost population from 1990 to 2000 – except for the in-migration of Hispanics. These counties are in important Meat Packing areas.