August 2015

Rural America and Modern Agriculture: What Kind of Future?

Bruce A. Babcock
Iowa State University, babcock@iastate.edu

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Available at: http://lib.dr.iastate.edu/iowaagreview/vol8/iss2/1

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Farmers and food manufacturers continue to evolve toward a business model that emphasizes financial efficiency and lower consumer prices. American consumers are driving this movement by spending an increasing proportion of their food dollar at fast food restaurants and at mammoth food retailers such as WalMart, Albertsons, and Krogers. What these restaurants and retailers have in common is the need for predictable, uniform, low-cost supplies. They find that they can best meet their needs by conducting their business with large, innovative food manufacturers, such as Hormel, ConAgra, Kraft, Nestle, and Smithfield, or by working directly with the largest farmers, such as the company founded by J.R. Simplot.

The push for low-cost and uniform agricultural products, combined with the tremendous increases in agricultural productivity from new technologies, has created an economic incentive for farmers to specialize and has given them the means to do it. Commercial fertilizer substitutes for livestock manure. Pesticides substitute for crop rotation. And machinery continues to reduce the need for labor. We now have specialized grain producers and specialized livestock producers. This specialization has resulted in lower production costs and the ability to significantly increase the size of farming operations. It is no accident that American consumers pay so little for their food compared to consumers in other countries. Our national policy has been to fund agricultural research that increases yields, decreases labor requirements, and enables farmers to rely more on biotechnology and chemical inputs than on traditional farming practices. The result of this national policy has been lower prices, ever fewer farmers, and, as shown in the map on page 4, widespread population losses in major U.S. agricultural production regions.

To a large degree, this policy has been a national and international success story. Most Americans do not have to worry about whether they will have enough to eat, and U.S. agricultural surpluses help hold down prices paid by consumers around the world. The loss of population in many rural U.S. counties simply reflects the better economic opportunities that urban areas have to offer individuals and their families.

However, there are some drawbacks. A policy of increasing agricultural research and the subsidization of commodity production inevitably leads to lower farm prices over time. But Congress is unwilling to allow price supports to decrease. With this increased reliance on government subsidies, crop farmers have developed a culture of dependency. This culture is most evident at farm bill time when, it seems, few farmers, or at least few who lobby on their behalf, are willing to consider whether agriculture would be better off without subsidies. With the significant exception of dairy, livestock producers have remained largely free of subsidies, so they are not dependent on the government for their livelihood. But they face their own problems. Increased size and integration of operations puts traditional producers at an economic disadvantage, either because of higher production costs, lower demand for their less uniform product, or limited market access. In addition, the gradual but seemingly inevitable migration of people out of the Plains States means fewer economic opportunities for remaining residents and less vibrant communities.

To the great majority of Americans, these drawbacks do not even register. Their involvement with the food system is limited to their...
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Iowa Ag Review is a quarterly newsletter published by the Center for Agricultural and Rural Development (CARD). This publication presents summarized results that emphasize the implications of ongoing agricultural policy analysis, analysis of the near-term agricultural situation, and discussion of agricultural policies currently under consideration.

Editor
Bruce A. Babcock
CARD Director
Sandra Clarke
Managing Editor
Sandra Clarke
Managing Editor
Betty Hempe
Editorial Consultant
Becky Olson
Publication Design

Contact Betty Hempe for a free subscription, publication information, and address changes at: Iowa Ag Review; Cardinal Publications, Iowa State University, 578 Heady Hall, Ames, IA 50011-1070; Phone: 515-294-7519; Fax: 515-294-6338; E-mail: CARD@card.iastate.edu; Web site: www.card.iastate.edu

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Iowa Ag Review
ISSN 1080-2193
http://www.card.iastate.edu

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IS THERE AN ALTERNATIVE?
The choices we make with our food dollar suggest that the interests of most Americans are well served by the current system of food production. After all, no one is forcing us to eat fast food or to shop for inexpensive food in mega-markets. Therefore, rural advocates who push for an alternative food production system that reverses the direction of market competition are not necessarily serving the broad public interest. Rather, they serve the interests of a minority of Americans who want to see a different system take shape. This minority includes people who will benefit from a reversal in the loss of small towns in agriculturally dependent counties. It also includes those who oppose on moral or ethical grounds the increased vertical coordination and consolidation that has accompanied the march toward lower costs and increased efficiencies in food production, and those who believe that American moral values and the teaching of the merits of hard work are at risk with the loss of small rural towns.

There are two ways that an alternative food production system can take shape. The first way is through government regulation or government subsidies. The ban on packer ownership of livestock passed by the U.S. Senate agriculture committee as part of its farm bill is such a regulation. The Iowa legislative proposal that would favor livestock facilities that have “family farm” or “good neighbor” characteristics is another. An effort to target farm subsidies to farmers with favored characteristics rather than to the largest farms is an example of a subsidy policy that would try to reverse the trend.

The difficulty with trying to regulate or subsidize a new system of agriculture is that it is likely to fail if it goes against the economic interests of the majority of Americans. Either innovative companies meeting consumer demands will circumvent the regulations or the regulations will not muster enough support to pass legislatures.

The second—and more sustainable—way to develop an alternative food production system is to induce American consumers to change the way that they spend their food dollar. For example, if enough consumers start demanding pork that comes from pigs raised in pasture instead of in confinement, then farmers that have a competitive advantage at producing pasture-raised pigs would have an economic advantage. It is likely that a different set of resources and skills is required to raise pasture pigs than to raise confinement pigs; therefore, market competition would change the very nature of our food production system. If American consumers were to demand traceable ground beef because of concerns about E. coli, then the price of hamburger would increase, a typical pound of hamburger likely would not come from many different cows, and we would have a different beef production system than we now have.

This path may be more sustainable, but it is much more difficult and expensive. Changing consumer demands that would lead to a significant change in the business of feeding Americans would involve a massive education and marketing campaign. The education part of the campaign would involve making American consumers aware of how
their food is produced, from the biotech and chemical labs that produce the seed, feed, embryos, and chemical inputs, to the farm, to the food manufacturers, and to the retail outlet. A prime example of such education is Michael Pollan’s article in the New York Times Magazine (March 31, 2002) titled “This Steer’s Life,” which documents what a typical steer goes through in today’s food system. Education alone may lead some Americans to change their food buying decisions. For example, anecdotal evidence suggests that some readers of Fast Food Nation have sworn off hamburger chains.

But it is unlikely that education alone would lead enough Americans to change their food consumption patterns to bring about a significant change in most of the U.S. agricultural system. After all, convenience, low cost, and good taste are powerful attributes of the food produced in the current system. Thus, the free-market approach to large-scale change in the food production system would also require a large marketing campaign aimed at convincing Americans that an alternative food production system would be in their best interest. This alternative production system would involve farmers growing and perhaps processing products that have some attribute that differentiates them in the consumer’s mind. That is, this system would move away from low-cost, high-volume production of undifferentiated commodities toward production of higher-value, differentiated products. Suppose consumer demands were changed in this way. Would rural vitality necessarily increase?

**The Link Between Product Differentiation and Rural Vitality**

Many in Congress justify subsidizing commodity production in terms of propping up rural America. But the evidence suggests it has not worked. The December 15 issue of The Economist showed that the counties that received the most farm subsidies from 1950 to 2000 were the counties that suffered the greatest decreases in population. While one cannot say that the subsidies necessarily caused the population decreases, it is clear that encouraging commodity production with price subsidies has not kept people in rural areas.

**Rural regions, communities, and residents who want to build a brighter economic future should take stock of what they do best. . .**

Can movement away from subsidies to differentiated, value-added products reverse the population loss? First, we must recognize that people are more mobile today than ever before. People will choose to live where they think they can have the best life. This involves judgments about types of jobs, associated income, recreational amenities, and other family considerations. All things being equal, businesses and entrepreneurs will locate in areas where they can make money, where they can find workers, or where they can induce workers to live.

Would an increased demand for differentiated agricultural products reverse the population decline in agriculturally dependent regions in the Central United States? At first glance, the answer would seem to be yes. Any movement away from a system that encourages consolidation, uniformity, and large-scale commodity production would increase the payoff from entrepreneurship. So it is likely that such movement would increase the income and job opportunities in rural areas. But would this attract a significant number of people to rural areas? The evidence here is mixed. For example, in Iowa, many people who work in rural areas choose to live in urban areas, such as Cedar Rapids, West Des Moines, and Council Bluffs. They make this choice for a variety of reasons, including access to better education and recreation opportunities. Rural areas have an inherent disadvantage: most Americans simply do not want to live in relative isolation without the amenities that a rich country can provide. But any increase in economic opportunity in rural areas is bound to at least slow the loss of population, and perhaps that is the most that advocates of a new food production system can hope for.

In our free-market, capitalistic society, the type of food production system that we will have is largely out of the control of policymakers and local residents. Rather, it is driven by the choices U.S. and world consumers make with their food dollar and the response of profit-driven firms and entrepreneurs to meet these choices. The firms and individuals who can best meet these choices at the lowest per-unit cost will prosper. Those that cannot will fade away. Despite increased calls for government regulation to change the relationships between parties in the food production system, such regulations will likely have, at most, a small impact in the long run. Filling market needs efficiently and, for niche markets, quickly is the key to long-term success. Rural regions, communities, and residents who want to build a brighter economic future should take stock of what they do best, what they can potentially offer the world, and then invest their time and money to strategically position themselves to meet the future, whether that be in commodity production, niche market food products, or expanded provision of recreational amenities. There is room for all.