Hogs, Economics, and Rural Communities[1]

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Nearly ten years ago I was asked by a group of farmers in north Missouri to evaluate the potential impacts of large-scale, confinement hog feeding operations on rural communities. Since then, I have worked on this issue with grassroots community groups all across the U.S. and Canada.

Every community is a bit different, but the fundamental issues are always the same. Some people in these communities expect to benefit economically by adopting an industrial model of livestock production, while others expect to suffer the inherently negative consequences of agricultural industrialization. Perhaps no public issue has so split the social fabric of rural communities, as when those who benefit economically confront those whose quality of life is diminished and the rest of the community is asked to choose sides.

The basic arguments are quite straightforward. Large-scale, commercial hog producers, most operating under corporate contracts, feel compelled to adopt a factory model of production, involving concentrated confinement housing, cesspool-like lagoon storage of hog feces and urine, and the spreading or spraying of manure on open fields. These producers claim that such operations represent a natural evolution of hog production and essentially are the same as any other family farming operation. Factory farming supporters argue that irrational and fanatical opponents are trying to deny their inherent "right to farm" and their right to pursue their economic interests in a free enterprise economy. They argue that without compelling scientific proof of extraordinary risks to the environment or to human health, there is no reason to treat these factory livestock operations any differently than any other family farm.

However, common sense leads to a quite different conclusion. For example, all hog waste "lagoons" (cesspools) leak wastes into the groundwater. The only questions relate to how much they leak and how great a risk they present to human health. Inevitably, hog manure from these operations pollute streams. The only questions relate to how many spills will occur in how many months and how great a risk they present to human health. All large confinement hog feeding operations stink. The only questions relate to how much of what chemicals are contained in the stench and how great a risk they present to human health. All large hog CAFOs rely on human antibiotics to control disease. The only questions relate to how much this contributes to antibiotic resistance in treating human diseases and how great a risk it presents to human health.

The common sense answer to all of these questions is the greater the number of hogs concentrated in one place, the greater will be the risk to the natural environment, and ultimately, the greater the risk to human health. Large-scale confinement animal feeding operations are not "farms" they are livestock factories. When hogs are raised on real farms, they are given sufficient space to move about, they spread their own waste – and with common sense

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management, don't pollute the groundwater or streams. When hogs are raised on real farms, they "smell" but don't "stink" – the difference being, "smell" doesn't make people sick. When hogs are raised on real farms, they need antibiotics only when they are sick, and generally, they stay healthy. The greater the number of hogs crowded into one building, on one farm, in one county, the greater will be the risk to human health. It's a matter of common sense.

Certainly commercial hog producers have a right to pursue their economic self-interest in a free enterprise economy. But, they don't have a right to endanger the public health. "Private property rights" have never included the right to benefit at your neighbor's expense. The "right to farm" has never included the right to operate an "animal feeding factory."

The state and federal government agencies may feel compelled to wait for scientific proof, perhaps for a significantly large number of people to become disabled or die from hog related illnesses. But at the local level, people have the responsibility of ensuring that they and their neighbors don't become those public health statistics. It is a contentions issue. People will have no choice ultimately but to choose sides in this matter. Common sense – not economics and not science – should be our guide in deciding which side we choose.

Unfortunately, many people in communities not yet "invaded" by corporate agriculture are still sitting "on the fence" – they have not yet been forced to choose. Many of these people feel the industrialization of agriculture is inevitable – that it is destined to happen whether we like it or not. They sincerely believe that the current transition in agriculture is being driven by economic forces that are beyond anyone's control – it's simply the working of the *invisible hand* of economics. Its true, American agriculture is in the midst of a great transition. Agriculture as we have known it, with family farms and viable rural communities, is being rapidly transformed into an industrial agriculture, with factory farms and dying rural communities. And it is true that the transition is being driven by economics. But, we don't have to stand by and accept this transition as if it were inevitable or unstoppable, just because it is driven by economics.

This industrialization of agriculture is not a new phenomena in America. The trend toward specialization, standardization, and consolidation – toward industrialization – began around the turn of the 20th century, with the mechanization of agriculture. Until recently, however, the most obvious consequence of this process had been larger farms, fewer farms, and fewer farm families. But, farmers and families, real people, were still making the decisions concerning what was produced, how it was produced, and for whom it was produced. And, they considered the impacts of their decisions on their neighbors and on the land. Today, however, these important decisions increasingly are made in the boardrooms of giant, multinational corporations. These corporations are not real people; they have no families, no friends, no communities, and increasingly no single nationality. Their decisions are driven by the never-ending need to generate profits and to grow. The needs of families, communities, the land, and society in general, must be considered secondary to the needs of the corporation, if at all.

Nowhere is the industrialization more evident, in all of its dimensions and all of its ugliness, than in large-scale, confinement animal feeding operations (CAFOs) and in the corporations which control and promote them. Economists defend the corporatization of agriculture as epitomizing a competitive capitalistic economy. The trend toward large, corporately controlled production is simply the working of a "free market" economy, they say. And our economic theories tell us, that "free markets" allocate natural and human resources more efficiently than can any other economic system. According to the economists, the only reason family farmers are being forced out of business is that they are less efficient than are corporations. Farmers will simply have to find some other economic endeavor in which they can be competitive, so we are told.

The economists might have been right, except for one important fact; we no longer have a competitive capitalistic economy. The corporate consolidation of economic power has fundamentally transformed our economic system, systematically eliminating most of the fundamental conditions necessary for competitive capitalism.

The currently popular neoconservative economic theories are still rooted in the observations of the classical economist, Adam Smith, in his book, <u>The Wealth of Nations</u>. From Smith's observations during the mid-1700s, economists developed the fundamental assumptions of economic theory, which still underlie all "free market" economic thinking even today. These basic assumptions must hold in order for Smith's "invisible hand" of competition to efficiently allocate resources, and thus, transform individual greed into the greater societal good.

First, markets must have a sufficient numbers of buyers and sellers to ensure that no single buyer or seller can have any noticeable effect on the overall market. In such markets, the benefits of more efficient production are quickly passed on to consumers because it is impossible for producers to retain excess profits. It must be easy for new sellers to enter markets that are profitable and easy for sellers to get out of unprofitable markets, so that producers are able to respond to consumers' changing wants and needs with changes in production. Consumers must have clear and accurate information concerning whether the things they buy will actually meet their wants and needs. And finally, the consumer must be sovereign – their tastes and preferences must reflect their basic values, untainted by persuasive outside influences.

None of these assumptions is valid in today's society. Today agricultural markets are dominated by the large agribusiness corporations, certainly at every level other than the farm level, and increasingly even at the farm level. In addition, it is not easy to get into or out of any aspect of agriculture, and with large-scale specialized operations, it is becoming increasingly harder even to get into or out of farming. Consumers don't get accurate, unbiased information concerning the products they buy, but instead get disinformation by design, disguised as advertising. Finally, consumers are no longer sovereigns. The food industry spends billions of dollars on advertising designed specifically to bend and shape consumers' tastes and preferences to accommodate mass production and mass distribution, which enables corporate control of agriculture.

In addition, market performance cannot be measured solely in terms of quantity, price, or costs of production. Markets exhibit two distinctly different types of efficiency – efficiency of operation and efficiency of resource allocation. Operational efficiency can be measured in terms of quantity and price. The lower the cost of production, the greater the quantity of output, the lower the competitive market price, and the more efficient the operation. The "economies of scale" of industrial production reflect operational efficiency. In many industries, the larger the scale of operation, the lower will be the cost of producing a given quantity of output of a given product. Thus, industries dominated by a small number of large corporations, where each is vying for an increasing market share, may be appear to be very economically efficient.

Allocative efficiency is fundamentally different from operational efficiency. Allocative efficiency must be measured in terms of whether resources are being effectively allocated to give consumers a variety or assortment of goods and services, in the appropriate "relative" quantities, to meet their individual wants and needs. Adam Smith claims regarding the *invisible hand* of competitive markets were primarily about efficiency of resource allocation, not efficiency of operation. The generally accepted premise that market economies are more effective than centrally planned economies in allocating resources to meet the needs of society is based on the assumptions of purely competitive markets.

The resource allocating function of markets get little attention in public discussions of economic policy, as if it were beyond the understanding of the average person. However, as John Kenneth Galbraith, a noted twentieth-century economist, once wrote: "The great truisms of economics have no clear discoverers; they are evident for all to see." Such is the nature of allocative efficiency. It mainly a matter of common sense and "is evident for all to see."

Market prices are powerful mechanisms for guiding economic activity. Prices ration scarce supplies among those who are willing and able to buy. And, prices provide producers with incentives to increase or decrease supplies. Losses eventually force producers to cut back if they fail to respond to falling prices, which are a signal they are producing more of something than consumers want. The profits generated by higher prices also provide existing producers with the financial means, as well as the incentive, to expand production to meet rising consumer demand.

Markets also determine wage rates for labor, interest rates for capital, rental rates for land, and salaries for managers. The demand for these inputs or factors of production is derived directly from prices and profits at the consumer level. Higher prices and more profits from a given product result in greater demand and higher prices for the things it takes to produce it. Falling product prices translate into weaker prices for production inputs.

The supply of production inputs responds to prices in the same way as the supply of consumer products. If wage rates fall in a given industry, workers move to other better paying jobs elsewhere. As producers in a growing industry attempt to expand production, they need more capital, they bid up interest rates, and capital flows in from other uses to finance their expansion. Thus, productive resources – land, labor, capital, and management – are shifted from one use to another as changing profitability make them more or less valuable in producing different goods and services. They are shifted from less valued to more valued economic uses.

This is the basic nature of the process by which scarce resources are allocated among alternative uses, so as to best meet the needs and wants of consumers. At first, it may seem a bit complex, but it really isn't all that difficult. Individual consumers seek to maximize their utility or satisfaction and business firms seek to maximize profits. As each pursues their individual self-interest, they are guided, as if by an *invisible hand*, to allocate scarce resources so as to maximize the collective economic welfare of society. However, efficiency of the allocative process clearly depends on the extent to which actual market conditions conform to the classical conditions of pure competition.

Excessive profits, anywhere in the system, distort price signals, as they pass through markets from consumes to producers, and lead to misallocation of productive resources in relation to consumers' preferences. Barriers to entry and exit keep new producers from increasing production to accommodate increasing demand for some items while allowing existing producers to continue producing more of something consumers value less. Misleading advertising causes consumers to purchase things that do not meet their needs, leaving no incentives to produce the things that would meet their needs better. And finally, persuasive advertising, designed to "create wants," distort the concept of consumer sovereignty and reward those who produce things that, at best, only return consumers to their pre-advertising level of satisfaction. In the absence of competition, markets are incapable of efficient resource allocation.

No objective means of measuring the allocative efficiency of markets are available. The only way to ensure that resources are being allocated so as to give consumers the things they really want and need is to ensure the competitiveness of markets. The more an industry deviates from the classic conditions of perfect competition, the less likely it is meeting the real needs and wants of society. The quantity and price of a product, or assortment of products, do not measure efficiency in resource allocation – only operational efficiency. The absence of excessive profits, in itself, does not indicate allocative efficiency. Profit margins typically are small during periods of industry consolidation as corporations compete for dominant market shares.

Regardless of what the neoconservative economists may try to tell us, the only assurance of allocative efficiency is to maintain the classical economic conditions of competitive markets. There is no logical reason to believe that the corporate, industrial agriculture of today is evolving to meet the needs or wants of consumers. Such a system may put out lots of "cheap stuff," but there is no assurance that consumers are getting the "right stuff."

Equally important, there is no logical reason today to believe food costs will be less or food quality will be enhanced after even more family farmers are forced out of business. First, the corporate industrialization of hog production today is not being driven by economies of scale, but rather by the quest for market and political power. A well managed, independent family-sized hog farm today is just as cost efficient as a giant corporate hog factory. Smaller operations may require more management and labor, but they typically require less capital and rely less on costly purchased inputs. The primary motive for corporate consolidation today is a quest for market power to extract profits from consumers and contract producers and for political power to extract subsidies from taxpayers.

There is no reason to believe that food will be cheaper or higher in quality when free market coordination is replaced with corporate contractual coordination of the food system, as is happening in agriculture today. The highly touted "global food chains" being put together by corporations today is not the epitome of competitive capitalism, but of classic "central planning," pure and simple. Central planning is a fundamentally "wrong-headed" idea about how best to allocate resources – regardless of whether it is carried out by a government or a corporation.

There is every reason to believe that the continued industrialization of agriculture will lead to higher food costs and lower food quality, as capitalism degenerates into corporatism.

Virtually every environmental and social problem in rural America today can be traced to overuse, or misuse, of the corporate, industrial paradigm of development. And, there is nothing in contemporary economic theory that addresses the negative environmental and social impacts of industrialization – at least not in any meaningful way. In economics, environmental and social impacts are treated as "externalities" – something that must be dealt with outside the economic system. In a few years, the agribusiness corporations will leave North America, leaving their contract growers with useless investments in facilities, without "jobs," without farming skills, and with "big messes" for which they must be held responsible. The rural communities that embrace the corporate, industrial model of agriculture today will be left with nothing on which to base future economic development.

Thankfully, there are other, better ways to farm and to raise hogs; the "sustainable agriculture" movement addresses the need to protect the rural environment and support rural communities, while providing opportunities for farmers to earn a decent living. But, sustainable farming takes more imagination and creativity than contract production – it requires taking care of each other and taking care of the land. Sustainable hog producers all across North America are finding that deep-bedding systems, including hoop house structures, and pasture based hog production systems often are not only more humane, ecologically sound, and socially responsible, but also, are more profitable than CAFOs. But, such systems require more management, more imagination, more creativity, more thinking, and thus, are more difficult to "promote."

The rural communities that reject the corporate industrial model of agriculture today, and embrace instead the model of agricultural sustainability, have far brighter economic prospects for the future. Their successes in economic development may be less spectacular and their economies may grow more slowly, but they will be preserving and protecting the natural resource upon which future economic development must be built. Fresh air, clean water, scenic landscapes, and open spaces will be among the most valuable of economic resources for the future of many rural communities. Caring communities, low crime rates, social harmony, and shared leadership will characterize rural communities in which highly productive people, both native and immigrant, will want to live. People – hard working, thinking, trusting, caring people – are the key to the economic success of rural communities in the future. A sustainable community doesn't just create quality employment opportunities; it nurtures the growth and development of quality people. Sustainable economic development, like sustainable farming, may not be quick and easy, but in the longer run, it's more than worth the time and effort.

Rural America is going through a great transition today, but the consequences are neither inevitable nor inevitably negative. Rural communities are being told that they must embrace the corporate model of agriculture or they will be left behind to wither and die. But, their common sense tells them that factory farming is not good for the natural environment, it's not good for family farms, it's not good for the rural economy, and it's not good for the people of rural communities. Economists tell us that industrialization is simply the impersonal working of free markets – of a competitive, capitalistic economic systems. But, our common sense tells us that the economists are wrong. An economic system dominated by a handful of global corporations is not a “free market.” Adam Smith’s *invisible hand* has been mangled in the machinery of corporate industrialism. It’s time to call the economist’s *hand* on the fallacies of corporate “free markets.” In reality, the future of rural communities is in the hands of rural people. Industrial or sustainable – they must choose. The choice really isn’t all that difficult. All it takes is a little common sense.