

Economic Fallacies of Industrial Hog Production

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Expansion of large-scale, industrial hog operations during the decade of the 1990s has fundamentally transformed the basic nature of the hog-pork sector of the US agricultural economy. Large-scale corporately-owned hog operations have gained a position of dominate market power and seem destined eventually to make it impossible for independent hog farmers to compete using conventional methods of production and marketing. It is no longer a question of whether independent hog farmers can stay competitive in terms of costs of production. The greatest threat to hog farmers today is loss of access to markets, as the giant agribusiness corporations move toward complete vertical integration of the hog-pork industry.

The agricultural establishment – including most major farm organizations, the USDA, and Land Grant Universities – seem willing to accept corporatization of the hog-pork sector as an inevitable consequence of “free market” economics. Virtually all of the positive claims put forth by the advocates of large-scale confinement feeding operations are economic in nature. Advocates of industrial hog production claim that consumer will benefit from higher quality pork and lower prices, family farmers will be able to remain competitive through contract hog production, and rural communities will benefit from increased local economic activity. Thus, society in general will benefit from the economic industrialization of US hog production – so claim the advocates.

There are elements of truth in each of these claims. On balance, however, the claims are more fallacy than fact.

Fallacy: Consumers' demands are driving the trend toward large-scale corporate hog production.

Advocates claim that consumers are concerned primarily about food costs and quality, and that smaller, family farming operations simply can't provide consumers with the consistent quality of pork they demand at as low a cost as can the large-scale, corporate integrated system. They may admit that some family hog farms are as efficient as the hog factories, but claim that corporate operations are more efficient than the “average” family hog farm. They claim that consumers today are demanding leaner pork, which requires different genetics, and that consumers don't want the variability of quality that is inevitable when hogs of various breeds are produced under a variety of production systems, and the resulting pork products are intermingled in the marketing system. Advocates claim that consumers are driving the current trend toward factory systems of hog production, because consumers will benefit in the marketplace. However, there are better means of giving consumers consistency, without sacrificing variety. The meager average cost advantage for corporate operations may well be more than offset by larger corporate profits, resulting in higher rather than lower consumer prices from industrial pork production.

Fact: Corporate profits are the motivation for industrial hog production.

Corporate hog producers are concerned about consumers only as a market for their products – profits come before preferences of consumers.

First, from the standpoint of food costs, consumers have little if anything to gain from lower cost production at the farm level. Hog producers have received only about 25 cents of each dollar consumers have spent for pork in recent years. And, it takes a little over two pounds of live hog to make one pound of pork at retail. So if production costs for live hogs were two cents per pound less that would amount to four cents per retail pound, but would still only result in a savings of one cent per pound of pork at retail. It's unlikely that any cost efficiency advantage for the larger operations would be greater than two cents per pound or two dollars per hundredweight of hogs sold. So the most consumers could possibly save would be in the range of a penny on the dollar – hardly enough to justify changing a whole sector of the farm economy. And as indicated before, there are other ways of achieving more efficient hog production without putting family hog farmers out of business.

On the question of quality, consumers want “consistent” quality but they do not necessarily want the “same” quality. They want to know when they buy the center cut pork chop today that it will be pretty much the same as the center cut pork chop they bought last week – they want to know what they are getting for their money. But all consumers don't want the “same” quality – people have different tastes and preferences. Some want their pork chops to be larger and other smaller, some want theirs to be leaner and others well-marbled, some want theirs darker in color and others lighter, some like their chops firm and others want theirs to be more moist, and some don't want pork from a factory farm while others don't care. It's a fundamental principle of economics that we don't all value the same things equally – “quality” means different things to different people.

The large-scale factory operations are going to give all consumers the same thing, whether they want it or not. All pork will be from the same basic genetic stock, feed the same feed in the same kind of climate controlled facilities, using the same drugs and hormones, resulting in animals that are all the same age, weight, and size. Some consumers may be well pleased, but others will not. Those who are not will no longer have a choice. However, the same level of consistency can be achieved when consumers buy direct from the same producer, or a small group of producers, time after time, without eliminating the opportunity for each consumer to choose the type of pork they prefer. They simply buy from a producer that supplies the type of pork they prefer.

Once the large corporations gain control of the pork industry, it is far more likely that the retail pork price will be higher, rather than lower. Once competition has been weakened, or destroyed, there will be no incentive to pass any savings in production costs on to consumers. Corporations are getting into the hog business because they expect to make money. Their goal is to eliminate competition, not to encourage it. Higher profit margins will have to come from somewhere. Consumers may find corporate profits are coming mostly, if not entirely, from higher retail pork prices. Large-scale corporate hog production will benefit the corporation – not the consumer.

Fallacy: Contract hog production is the only means by which family hog farmers can gain the access to the capital, management, technology, and markets they will need to survive.

The advocates claim that family farmers have no future in hog production unless they engage in comprehensive production contracts with agribusiness corporations. They claim that economies of size in hog production are such that hog operations will have to be far larger than a feasible-sized family hog operation in order to be cost competitive. By contracting with large-scale corporate hog operations, family farmers can realize the benefit of an optimum scale hog operation, in terms of financing, technology, and market access, while maintaining a “family-sized” production operation. Thus, contracting allows “family hog farmers” to continue producing hogs for a living. However, contract production is not the only means by which independent hog producers compete successfully. In fact, farmers will discover that they have sacrificed their status as independent hog producers when they sign a comprehensive production contract.

Fact: Family hog farmers can survive and prosper by taking advantage of their unique assets – their willingness to work, their commitment to farming, and their skills in animal husbandry and business management.

Management is more important than the size of the operation in determining the economic efficiency of a hog operation. Actually farm records collected by various state universities have consistently indicated that 20-40 percent of family hog farms are as cost efficient as are the large-scale, corporate hog operations. So even with current production methods, a well-managed family hog operation can compete with the large-scale corporate hog operations. Most existing family hog farmers who sign corporate contracts do so because they are afraid of losing access to competitive markets, not because they can't compete on cost of production.

Common sense tells us that hog farmers who sign comprehensive production contracts are not going to get much benefit out of their contract operations. The four basic factors of production are land, labor, capital, and management. Each of these factors earns an economic return: land earns rent, labor earns wages, capital earns interest, and management earns a salary. Profit is a reward for taking the risk of committing land, labor, capital, and management to an enterprise without knowing whether the return will be positive or negative.

In an industrial hog operation, land doesn't contribute much to total returns. They can put a lot of hogs in a small space. In a typical contract operation, the facilities are generally new, built to contract specifications, and most of the money is borrowed. The contractor either provides the money for the loan or assists the producer in securing a loan. The contract producer provides nearly all of the on-site labor in a contract operation. However, these hog operations are highly mechanized, and all production procedures are highly standardized – feeding, medication, climate control, etc. The contractor provides all of the production technology. The on-site labor is basically the work of a janitor or building supervisor. So the contract producer can't expect to earn much more than minimum wage for his or her labor.

All of the significant management decisions, such as selection of facilities design, genetic stock, health program, breeding dates, when to place on feed, feeding system, when to price, when to

deliver, these decisions are all made by the contractor – not the producer. There is no reason for the producer to expect to earn a return to management or salary. In addition, the contractor takes most of the production and market risks, so there is little opportunity for the producer to earn a profit over and above the value of their contract labor. They may earn a decent return on their capital investment, if they are able to keep a favorable contract for the useful life of their buildings and equipment, but by the time everything is paid for, it will likely be worn out.

In summary, the contract producer doesn't really contribute much to a contract hog operation, and thus, can't expect to get much back in return. The contractor provides the capital, the technology, the management, the market, and takes most of the risks. So, the contractor is going to make the money – not the producer.

If family hog operations are to survive and prosper in the future, it will be with systems that require high levels of skill in animal husbandry and all aspects of production management. Successful family hog operations also are going to have to break away from the highly integrated production and marketing systems – independent producers are quickly losing access to traditional markets. Family hog farmers of the future must have their own direct “linkage” with their customers – either individually or through joint ventures with other independent producers. Many producers are already developing such systems. They may produce hogs on pasture, as does Greg Gunthrop in Illinois, or in deep-bedded dry-waste systems, including hoop houses, as does Tom Franzen in Iowa. They may sell direct to their customers through personal contacts, farmers markets, or cooperative ventures – such as Patchwork Family Farms in Columbia, MO – or through farmers' agents – such as Niman Ranch, a national supplier of upscale restaurants out of San Francisco.

The bottom line is that contract production is not a sensible alternative for the future of family hog farms. Instead, it means that farmers will become contract laborers, janitor or building supervisors, on their own farms. There are better alternatives for the future of family hog farms, but they will require a different kind of management. Contract hog operations benefit the contractor, not the family hog farmer.

Fallacy: Rural communities in agricultural areas will benefit from large-scale corporate hog operations.

The advocates claim that large-scale corporate hog operations are a logical economic development strategy for rural communities in agricultural areas. These operations will help keep local families employed on their farms and, if enough operations become large enough, they will create badly needed local jobs in pork slaughter and processing and in supplying feed and other services. Corporate hog production can also add significantly to the local tax base, particularly if feed and meat processing facilities are located in the area. Many rural agricultural communities are losing both population and tax base. They need people to support local retail businesses, local schools, and local churches, and they need local tax dollars to support local government and other social services. Many rural communities have a history of relying on agriculture and the local people are accustomed to working in agricultural operations. Corporations are looking for a hospitable place to locate their facilities. So corporate agriculture would seem to be a natural a fit – a win-win situation for both rural communities and corporate agriculture. However, rural

communities have better alternatives for economic development. Industrial hog production destroys the most valuable resources rural communities have for building a sustainable future.

Fact: Rural people must learn to rely on their own resources – their land, local investment, and local people – to sustain their communities over the long run.

The corporations who are investing in large-scale hog production are not in the business of community development. They are looking for someplace where they can do business as profitably as possible. They are looking for a cheap source of labor and somewhere to get rid of a huge quantity of smelly waste with the least hassle from local residents. They are looking for people who are desperate to stay on the farm – to be their contract producers. They are looking for people who are desperate for work of any kind – to work in feed mills and slaughter plants. However, they expect to bring in workers from other countries for the most intolerable jobs, regardless of where they locate. And they are looking for local town officials who want to bring jobs to their community now, regardless of the long run consequences.

Hog production and processing are dirty businesses – they are inherently threatening to the natural environment. The basic problem in large-scale hog production is concentration – putting too many hogs in one place. When hogs are dispersed across the land, their waste is likewise dispersed and diluted. Hogs on pastures, or even small confinement operations on diversified farms, do not represent a significant environmental or health risk. Their waste goes back to the fields where the feed grains were grown to be recycled for future production. But when tens and hundreds of thousands are concentrated in one place, the waste has to be collected, processed, and carefully distributed to prevent serious environmental and health problems. More waste is concentrated in a given geographic area than nature can assimilate. Any disruption in the waste treatment process means potential serious contamination of surface or ground water and potentially serious risks to human health.

The corporate operations defend themselves against environmental accusations by promising to build and maintain the most effective waste disposable systems technically possible. However, such promises have been followed by a persistent pattern of repeated environmental catastrophes in states such as North Carolina, Missouri, and Iowa, where many of the largest corporate operations are located.

In addition, concentration of too many hogs in one place results in noxious odors that can sometimes be smelled for miles around. A growing body of scientific literature has documented that odor problems are more than just a nuisance to those living nearby. Hog odors also reduce surrounding property values, and most important, odors can represent serious health risks for people living within miles of some of these large hog factories. Some counties have passed local health ordinances to protect their people from exposure to large-scale confinement animal feeding operations.

The negative environmental impacts of large hog operations also tend to degrade the quality of civic life in the local communities. The people who are downwind or downstream from these large-scale operations tend to be determinedly opposed to the corporate operations while those who work for the operations are thankful for their jobs. Consequently, these operations pit

neighbor against neighbor, and in many cases have split communities apart, making it difficult for the community to come together around any common cause.

So large-scale corporate hog operations destroy the very resources that rural communities must depend on for their long run viability and prosperity. They trade potentially productive, entrepreneurial opportunities on independent farming operations for low-skilled, low-paying jobs, which tend to contribute relatively little to the local community or the local economy. They often bring in workers from outside the community who have no commitment to the local community and may well add more to the cost of social services than corporations add to the local tax base. They risk degrading the natural environment by polluting streams and groundwater and filling the air with noxious odors. And, they can tear the social fabric of a community apart.

When the corporations find some other place where people will work even harder for less money, and who care even less about their natural environment, the corporations will move on, leaving the communities with the mess to clean up. The most valuable assets that most rural communities have to ensure their long run survival and prosperity are open spaces, a clean environment, and a strong sense of community. Some communities have sacrificed all of these things for a few low-paying jobs in corporate hog factories. This just doesn't make common sense. The corporations benefit from large-scale hog production, not the local community.

Fallacy: Large-scale corporate hog operations will benefit society in general.

Advocates claim that the trend toward large-scale corporate hog operations is simply a consequence of the free market. It's simply a matter of economics. Corporate hog operations are more cost efficient than family hog farms, if only by a couple of cents per pound. In highly competitive export markets, a couple of cents per pound can be critical to being competitive. Society overall will benefit from having the most efficient production possible – those who are less efficient, the family hog farmers, will simply have to find something else to do.

The advocates claim that consumers will have a choice concerning whether lower retail prices are more important than having variety in the supermarket. It's simply a matter of free market economics. Retail poultry prices dropped and poultry consumption increased as the poultry production moved from family operations to industrial production systems. Consumers chose low prices over variety, so they must be better off. Now, they will have a similar choice with pork.

Rural communities are simply choosing the best economic alternatives available. Right now, their options may not be too good, but society in general benefits when natural and human resources are put to their highest and best use, no matter how meager the economic benefits may be. It's simply a matter of economic reality.

However, our "free market" economy no longer ensures that individual economic decisions, based on short-run self interests, will best serve the long-run interests of society in general. People must make thoughtful, purposeful decisions to take care of each other and to take care of the natural environment if we are to build a sustainable economy and society.

Fact: Corporate greed is not magically transformed into societal good, no matter

what economists might lead us to believe.

None of the necessary economic assumptions underlying the proposition that the pursuit of corporate profit will serve the public good hold in the economy of today. The concept of an “invisible hand” that transforms greed into good was developed some 200 years ago by a British economist by the name of Adam Smith, based on observations of the world of the late 1700s. The capitalistic transformation of self-interests into societal interests requires that markets be economically competitive. Competition, in economics, means that markets must have so many buyers and sellers that no one buyer or seller can influence overall supplies or prices. Competition means that it has to be easy to get into profitably businesses and easy to get out of unprofitable ones. Competition requires that consumers have perfect information concerning quality attributes of products, and that there be no superficial product differentiation. Competition also requires that consumer tastes and preferences be taken as given – that the consumer is sovereign.

None of these necessary assumptions hold in the corporately dominated economy of today. The corporations are huge and the number of sellers of practically everything, including pork, is small and declining every day. It is not easy to get into or out of these large corporate operations – the investments are huge, everything is patented, and liquidation of a large, specialized operation is virtually impossible. Consumers do not have perfect information – billions of dollars are spend on advertising to promote superficial differentiation and disinformation. The “consumer is no longer king,” or queen – not since advertising firms started hiring psychologists to “create” consumer “wants and needs” that did not previously exist.

The “stuff” being produced today may well be produced at a lower cost than would be possible if the same “stuff” was produced by smaller firms in a competitive industry. However, there is absolutely no assurance that the “stuff” being produced today would be produced at all, that this same “stuff” would be chosen by consumers, in a truly competitive market place. The large corporations today don’t serve consumers. Consumers serve the corporations.

In fact, we no longer have a capitalistic economy in the United States. The foundation for any capitalistic economy must be individuals making their own independent decisions, in an environment where they are not bribed, coerced or persuaded to make short run decisions that may not be in their own long run best interests. Today, we have a corporatist economy rather than a capitalistic economy. We have separated decision making from ownership and from responsibility. A corporatist economy may be capable of achieving greater economics of scale than would a capitalistic economy. But, there is absolutely nothing in economic theory to ensure that society will realize maximum benefits from a corporatist economy – in terms of prices paid by consumers, choices available to consumers, salaries or wages paid to workers, or opportunities for people to make a decent living. A corporatist economy will ensure maximum returns to corporate investors – even at the expense of society in general.

The fact of the matter is that the big corporations will benefit from industrial hog production – not consumers, not farmers, not rural communities, and not society in general, but the

corporations. Corporations are neither “bad nor good,” at least in the sense that people are “bad or good.” Corporations have no heart and they have no souls. Neither do they have friends, communities, or citizenship. All they are designed to do, and thus, all they are capable of doing, is making profits and growing. The people who work for corporations may be good people, but they may feel that they have no choice but to help the corporation make profits and grow – even at the expense of other people. It simply doesn’t make any sense to turn our economy and our society over to a bunch of non-human beings.

Sustainable agriculture: A better alternative.

Regardless of the nature of our economy, there are better alternatives than industrial hog production. Independently-owned, modest-sized, family-operated hog farms can still be commercially competitive with industrial operations if farmers are willing to rethink what hog farming is all about. Independent hog farmers can no longer compete with the giant corporations in using industrial technologies to produce basic commodities for mass marketing and distribution systems, but there are other alternatives. A new paradigm for farming arising under the conceptual umbrella of sustainable agriculture balances the need for economic viability with ecological integrity and social responsibility to meet the needs of the present without compromising opportunities for the future. Independent farmers have a comparative advantage in sustainable production, because industrial hog operations, quite simply, are not sustainable.

In sustainable farming, production costs are minimized through more intensive management of on-farm resources within more diversified, individualized farming systems. Pasture-based and deep-bedded systems for hogs are but two examples. These smaller scale, less confining, solid waste systems minimize risks to the natural environment and maintain a humane living environment for both hogs and people around them. In sustainable farming, product value is maximized by giving specific consumers the products that they prefer and by establishing more direct relationships between producers and customers – as with Patchwork Family Farm and Niman Ranch. Sustainable systems treat customers as people rather than as markets.

Greater reliance on intensive management and direct marketing creates more quality employment opportunities in rural areas by enhancing the productivity of people rather than replacing people with capital investments and large-scale, mass-production technologies. Larger numbers of successful farming families contribute far more than just more jobs and income to the communities in which they live. People are more effective, efficient, and successful because they use their unique abilities and pursue their own dreams rather than carry out someone else’s orders. The empowerment of people to be productive is the foundation upon which the new paradigm of sustainable agriculture must be built.

The claims that industrial hog production will benefit consumers, farmers, rural communities and society are false. The fact is that consumers, farmers, communities, and society will all benefit as we move beyond the current preoccupation with short-run, economic self-interest and begin to support and promote systems that will be economically viable over the long run, because they are also ecologically sound and socially responsible. The interests of people will be better served as we begin to support and promote a more sustainable agriculture.