

Sustaining the Profitability of Small Farmsⁱ

John Ikerdⁱⁱ

I am often asked how a person can possibly expect to make a decent living on a small farm. My typical response has been that farming isn't just another way to make money. That real farming has always been a way life as well as a way to make a living. Those on small farms have to consider all of the quality of life benefits that come with a small farm, not just profitability. The vast majority of the farmers I meet while traveling across the continent seem to have a good quality of life. That said, I know many people on small farms are struggling economically. Even those who seem to be doing okay economically may not be able to afford health care or may be concerned about how they are going to save enough money to send their kids to college. Many farm families have to rely on off-farm jobs for health insurance and educational expenses, but off-farm jobs with benefits are getting harder to come by.

So I have to admit, profitability is perhaps the greatest challenge to sustainable farming today, particularly on small farms. First, those on small farms need to face economic reality. Most farms in America are large today because large farms that have access to more land, labor, and capital tend to make profits. Since small farms have less land and less capital they are likely to make less money, unless they have more of something else. There is a limit to how hard a farmer can work and without capital they can't hire more labor. So, the something else has to be the farmer – the farmer's imagination, creativity, ingenuity, entrepreneurship, and overall management ability.

My typical response to questions of profitability of small farms has been to encourage those on small farms to focus first on their uniqueness or individuality. They need to find customers who value the things only they can provide or at least can provide better than most other farmers. Their uniqueness may be in the particular types of products they know how to produce, their particular location, the times when they have products available for sale, or it may be their purely personal uniqueness as individuals. The most valuable asset small farmers may have is their unique personalities, their social and ethical values, and their willingness to form meaningful relationships with their customers and neighbors.

Meaningful personal relationships cannot be mass produced or mass marketed; no matter how much large corporations may spend trying to create customer loyalty through advertising and public relations campaigns. A person can only have a limited number of meaningful relationships. This is the ultimate advantage of sustainable farmers, particularly small farmers. A small farm doesn't need millions or even thousands of customers. Sustainability economic

ⁱ Prepared for presentation at the “19th National Small Farm Trade Show & Conference,” Sponsored by Small Farm Today magazine, Columbia, MO, November 5, 2011.

ⁱⁱ John Ikerd is Professor Emeritus, University of Missouri, Columbia, MO – USA; Author of, *Sustainable Capitalism*, <http://www.kpbooks.com>, *A Return to Common Sense*, <http://amazon.com>, *Small Farms are Real Farms*, Acres USA, <http://www.acresusa.com/other/contact.htm>, *Crisis and Opportunity: Sustainability in American Agriculture*, University of Nebraska Press <http://nebraskapress.unl.edu>; and *A Revolution of the Middle and the Pursuit of Happiness*, on line at <http://sites.google.com/site/revolutionofthemiddle/>.
Email: JEIkerd@centurytel.net; Website: <http://faculty.missouri.edu/ikerdj/> or <http://www.johnikerd.com>.

relationships must be built on a foundation of ecological and social integrity, which can only be sustained through a sense of personal connectedness. The size of any sustainable economic organization ultimately is limited to the number of meaningful relationships it is able to sustain.

I still believe my typical response to questions regarding profitability is valid. Uniqueness and individuality are the keys to sustainable profits, on large or small farms and for individuals or for groups of farmers working together. The value of uniqueness is being made increasingly clear in the local foods movement. Local markets create opportunities for individual farmers and groups of farmers working together than simply do not exist in national and global food markets.

Students learn in their first course in marketing that the value of any good or service is determined by form, place, time, and individuality. Before you can know what anything is worth in the marketplace, you first have to know what it is – its form – where it is – its place – when it is available – its time – and who has it for sale and who wants to buy it – the individuals involved in the potential transaction. The first three of these are fairly obvious but the third is less well understood and appreciated. The same product at a given place and time may have a significantly different value to two different individuals. People have different needs and different tastes and preferences. This is basic source of value of uniqueness or individuality.

Niche markets are made up of groups of individuals that share common needs or preferences. They are niche markets simply because their members are too few in numbers or lack the buying power to accommodate mass production and mass marketing methods. The current industrial food system has been very efficient in creating economic value by changing the form, place, and time dimensions of products, through processing, transportation, and distribution. However, in the process they have compromised, if not completely ignored, the individual tastes, preferences, and value of their customers. This fundamental weakness of industrialization is a basic strength of sustainability.

The industrial system relies primarily on processing and manufacturing to create a variety of different end products from basic agricultural commodities. You can buy whole chickens, drumsticks, split breast, buffalo wings, or chicken nuggets, but they all come from the same basic generic chicken raised by the same industrial process. Small-scale sustainable chicken producers can't compete economically for these markets. Chickens produced for sustainable niche markets include heritage breeds, free-range, pasture-grown, or farm-fresh chickens to produce authentic poultry products for profitable niche markets. These markets are too small to accommodate industrial methods. Varieties of fruits and vegetables in the mega food markets are limited to those that can be harvested mechanically, transported great distances, and still have long shelf lives in retail stores. Sustainable grown produce for local niche markets can be selected for taste, picked at the peak of flavor, and eaten before it has time to deteriorate. Industrial foods can't compete in these markets. Similar comparisons can be made for a wide range of industrial and sustainable food products.

The industrial system relies on low-cost mass distribution systems – including cheap transportation – to move products from the places where they can be grown at the lowest cost to the places where consumers are willing to pay the highest prices. Small-scale sustainable farmers can't compete in distant markets. By producing for local markets instead, sustainable producers

are able to minimize transportation costs while taking advantage of superior freshness, flavor, and other advantages that come with marketing locally. Sustainable producers rely on farmers markets, roadside stands, through CSAs, or through local restaurants and independent food markets, where they can also get premium prices for locally grown food products. Industrial producers can't compete for most local markets – they are just too small to industrialize.

The industrial system relies on national and global distribution systems to provide fresh food products at all times of the year. The availability of fresh food products by its very nature is seasonal, because in most locations the feasibility and costs of crop and livestock production tends to vary with the season of the year. The industrial food system simply moves products across nations and around the world from places where crops and livestock are in season to other places where they are not. By doing so, they are able to provide fresh food products everywhere during all seasons of the year. Small-scale sustainable producers can't compete in these markets. Sustainable producers instead must focus on the superior quality characteristics of foods that are harvested at their peak of flavor and eaten fresh or stored when they are “in-season” locally. Fresh strawberries in spring, melons in summer, squash in fall, and soups in winter are seasonal foods. Not only are seasonal products fresher and more flavorful, they also allow people to reestablish a physical and mental sense of connectedness the seasonality of the places where they live.

Sustaining the profitability of a small farm is not easy. Sustainable farmers must be more knowledgeable, imaginative, creative, and innovative than their industrial farming neighbors. Perhaps more important they must be more open, sharing, and caring in their relations with others; they must be “people persons.” Farmers who are lacking in one or more of the attributes or essential abilities may compensate by joining with others whose strengths and weaknesses complement their own. For example, those who have excellent knowledge and skills in building soil fertility but lack people skills may join a group that has people with excellent marketing skills but lack knowledge of soil fertility. Together they can do more things better than either could do alone. However, each farmer must still have the knowledge and skills to necessary to make their own strategic or tactical decisions. A small farmer can't expect to make a living on a farm that is managed by someone else. In addition, farmers must still be willing to establish and maintain a sense of personal connectedness with their customers, even if some else does most of the day-to-day marketing of their products.

By joining together with other like-minded farmers, small farmers can gain economic efficiencies in production, processing, and distribution. Together they can provide their customers with a wider variety of different products, at different places, during different times of the year, at a lower cost than if they were working alone. In essence, they are able to realizing the economies by “scaling-up” their production while retaining individual control of their farming operation. Such groups may function informally or may form associations, collaborations, alliances, or cooperatives through various types of written agreements. The form of organization does not matter nearly as much as the ability on individual members to work together.

Examples of such organizations include the Root Cellar *Bounty Box Program* in Columbia, MO, *Grown Locally* in Decorah, IA, *Idaho's Bounty* in southern Idaho, *Good Natured Family Farms* in the Kansas City area, and *New Season's Market* in Portland Oregon, and *Organic*

Valley headquartered in southern Wisconsin. These organizations range in size from a dozen or so farmers to several hundred farmers. Regardless of size, they all focus on providing products to select groups of customers who are concerned not only about flavor and freshness of their products but also about ecological and social integrity of the production and distribution process. The challenge in all such organizations is to maintain their ecological and social integrity as they “scale-up” to achieve greater economic efficiency. If they compromise their ecological or social integrity in the pursuit of greater profitability they will become no different in principle from the other economic organizations. They will have lost their uniqueness and thus will have lost their ability to sustain their profitability. They will have become part of the industrial food systems.

The industrial food system relies primarily on vertical integration to coordinate production with processing and distribution with changing consumer tastes and preferences. Food retailers or processors typically take control of all other levels in the food chain, from production through retailing. They may do so through outright ownership, formal contractual arrangements, or through sheer market power, as in the case of Walmart. In such cases, the organization that controls the so-called vertical supply chain has the power to extract all of the excess profits, leaving others with only enough economic returns to survive.

The historic alternative to vertical integration has been vertical competition or market coordination. In market economies, changes in needs and preferences of consumers are reflected in retail prices. Higher retail prices, for example, provide profit incentives for retailers, who then provide profit incentives to processors, who then provide profit incentives for producers to supply more of the higher priced product to meet the stronger consumer demand. If such markets were “purely competitive,” any excess profits would eventually be passed on to the consumer in the form of lower prices or higher quality products. In today's economic reality, food retailers or processors, depending on the market, are typically in a position to retain all excess profits for their stockholders, leaving farmers little more than they would have under vertical integration.

The sustainable alternative to vertical integration and vertical competition is “vertical cooperation.” Again, the specific type of organization doesn't matter, as long as individuals at all levels are willing to cooperate rather than compete. Under a vertical cooperative arrangement the economic benefits are shared equitably among consumers, retailers, processors, farmers, and anyone else involved in the collaboration. The participants reach agreements concerning what will be produced, where it will be available, when it will be available, and equally important, how it will be produced and processed, and who will produce and process it. They also agree on a pricing arrangement that will ensure that consumers will get the products they need and want and a price they are willing and able to pay and that everyone in the systems also gets an economic return adequate to reward them for their contribution to the process.

I am not aware of any current vertically cooperative arrangement that meets all of these conditions, although several of the previously mentioned organizations possess many of these attributes and are moving in this direction. The Food Commons project in California provides the best conceptual blueprint I am aware of for forming and sustaining a vertical cooperative organization. The differences between vertical cooperation and either vertical integration or vertical competition is made clear in their guiding principles. Their operational principles

include: fairness, sustainability, decentralization, transparency, and stewardship. Their organizational principles include: accountability, subsidiarity, reciprocity, and ethics.

The Food Commons defines their commitment to fairness as a fair deal for all, across the entire value chain, to ensure that the needs of all participants are met in a balanced way. Under sustainability they include recognition of the value of human labor at all levels from on-farm labor to food retail workers. Decentralization includes a commitment to efficient local and regional management structures. Transparency includes open and honest sharing of cost and price information among all levels in the value chain. Stewardship included a commitment to equal opportunities for those of future generations. The organizational principle of accountability includes accountability to the general public as opposed to shareholders. Subsidiarity means that decisions should be made at the most local or lowest hierarchical level. Reciprocity means the whole is responsible for the parts as well as the parts being responsible for the whole. Ethics includes complete accuracy and full disclosure and accountability for all decisions and actions. Such an organization would truly represent vertical cooperation rather than vertical integration or vertical competition.

If the sustainable food system is to “scale up” for economic efficiency without losing its social and ecological integrity, it must form vertical cooperatives that span from the farm level to the consumer level – from dirt to the dinner plate. If the sustainable value chain intersects with the industrial supply chain at any level, it will become a part or vertically integrated or vertically competitive which will include another economic entity that has the economic or political power to extract all of the profit from the entire system. The sustainability of profits for farmers in vertically cooperative value chains depends on maintaining the social and ethical integrity of relationships among all those who share in the cooperative. Relations based on economics are inherently and inevitably unsustainable.

Economic relationships are fundamentally different from social or ethical relationships because value is fundamentally different from social or ethical value. Economic value is individualistic, instrumental, and impersonal. Economic value accrues to the individual, not to a community or society as a whole. An economy is nothing more than a collection of individual economic entities. Economic value is instrumental in that economic decisions are always predicated on the expectation of something of greater economic value in return. An economic decision is a means to an end, not an end in itself. Economic value is impersonal in that economic value is determined by trade or exchange among different individuals. The specific individual or person involved in the transaction just doesn't matter.

Social value is also instrumental in that something of value is always expected from a purely personal relationship, even if the expectation is not precise with respect to what is expected or when something is expected in return. If we want to have a friend we have to be a friend in return. However, social value is different from economic value in that social value is clearly personal. The value of a social relationship is clearly dependent on the specific individuals involved in the relationship. Spouse are not interchangeable are neither are true friends. Purely social relationships produce nothing of economic value because they cannot be exchanged among individuals. Unlike economic relationships, once social relationships ends, there is nothing left that can be sold or traded to anyone else – only the personal memories.

Social relationships are individual, in that social values accrue to individuals rather than communities or societies. However, social values naturally evolve into cultural or ethical values which recognize and respect the common or shared values within families, communities, and societies as wholes, rather than collections of individuals. At the expectations of reciprocal expectations become less person and less precisely defined, social concerns become connected to communities, societies, or nations rather than for specific individuals. Eventually the recognition of value and respect spreads to those of other nations and to humanity as a whole, including those of future generations. This is the process by which social values evolve into ethical values.

Ethical values are different from economic and social values in that they are neither instrumental nor personal. The person who does things for purely ethical reasons has no expectation of receiving anything in return, at least not in his or her lifetime. They do it simply because they believe it is the right and good thing to do. Ethical values are clearly impersonal. What is right for one person is right for another; what is wrong for one is wrong for all. Sustainability is ultimately an ethical issue. The only rational reason for doing something for unknown someone of some future generation is because it has ethical value; because it is the right thing to do.

Certainly, there may be economic value associated with social and ethical relationships. It's easier and more economically efficient to do business with people we know and trust. But impersonal, instrumental economic self-interests will inevitably come in conflict with personal and ethical relationships. There will come a time when it is more profitable to do business with people other than with whom we have developed personal relationships. There will come a time when it is more profitable to eliminate ethical investments for which there is not expectation of economic returns. Relationships dominated by economic value are simply not sustainable. A cooperation organization, either vertical or horizontal, that is held together by economic interest is not sustainable.

I have often advised farmers to either form cooperative relationships with their friends or to make friends of those with whom they form cooperative relationships. I still believe that is good advice. I fully realize friendships are not easy to form or easy to maintain. Men, in particular, are notoriously inept at forming and maintaining personal relationships. If we want to realize the economic and social advantages of cooperation, however, we have no choice. The keys to positive personal relationships are not all that difficult to understand, they are just difficult to consistently carry out. For example we all know that if we are to maintain positive relationships with other people we must be honest, fair, responsible, respectful, and compassionate. Anytime we are dishonest, unfair, irresponsible, disrespectful, or uncaring, we know our relationships will be weakened. When we validate or confirm these basic social principles by our actions, our relationships will be strengthened. Ironically, to sustain the economic benefits of cooperation, farmers must give priority to social and ethical values.

Farmers need only return the historic purpose of farming to find the ethical values necessary for economic sustainability. Historically, the word *farm* comes from Middle English word, *ferme* ("variously meaning: tenant, rent, revenue, stewardship, meal, feast"), from Old English *feorm*, *farm* ("meaning provision, food, supplies, possessions, rent, feast"), from Proto-Germanic *fīrmō*,

firχumō ("means of living, subsistence"), and from Proto-Indo-European *perk^wu-* ("life, strength, force").ⁱ It is related to other Old English words such as *feormehām*, *feormere* ("purveyor, grocer"), *feormian* ("to provision, sustain"), and *feorh* ("life, spirit"). The Old English word was borrowed by Medieval Latin as *firma*, *ferma* ("source of revenue, feast"), and strengthened by the word's resemblance to the Latin words, *firma*, *firmitas* ("firm, solid") and *firmitas* ("security, firmness").

Certainly, economic concepts such as “rent, revenue, tenant, and means of living” have been historical aspects of farming. But, farming also has been identified with the provision of physical and mental sustenance for society, including “provision, grocer, subsistence, life, benefit, spirit, and feast.” Equally important, farming has always included a moral or ethical commitment to long run food security or permanence: “stewardship, strength, firm, solid, security, and sustain.” *Real* farming has never been just another business; it is a way of life. Real farming is inherently an ethical and moral profession. Maintaining the productivity of the land, not just for profits for the benefit of those of future generation, has always been a right and good thing to do.

Back to the original question; how can person possible expect to make a decent living on a small farm? First, we need to accept that farming is not just another means of making money; it is a way of life. My first advice to anyone, young or old, who is thinking of getting into farming is, “If you don't feel a ‘calling’ to be a farmer, you probably ought to be doing something else.” There are easier ways to get rich than farming and easier ways to farm than to care about people and care about the land – than to farm sustainably. Farming is a means of fulfilling a purpose in life. If farming is your purpose, there will always be a way to earn enough money. It wouldn't make any sense to have a purpose we were incapable of pursuing. This doesn't mean farmers are destined to live in poverty; it simply means that purpose is more important than profit.

How does this square with economic reality? Let me close with a few quotes from perhaps the most respected economist of the 20th century, John Maynard Keynes. Back in the 1920s, Keynes wrote, “the *economic problem* may be solved, or at least within sight of solution, within a hundred years. This means that the economic problem is not... *the permanent problem of the human race*.”ⁱⁱ Man's permanent problem will be “how to use his freedom from pressing economic cares... to live wisely and agreeably and well.”

As it turned out, Keynes was right. The “economic problem” has already been solved for the vast majority of Americans as well as those in the rest of the so called *developed* world. In fact, most Americans probably had as much material wealth as we actually needed to be happy as far back as the 1950s. A 2004 review more than 150 scholarly studies indicate that as national economies grow, beyond some very modest level of material well-being, around \$10,000 to \$15,000 per capita – there is little if any correlation between wealth and the overall happiness of people in a nation.ⁱⁱⁱ A 2003 British cabinet office report confirmed that “Despite huge increases in affluence compared with 1950, people throughout the developed world reported no greater feelings of happiness.”^{iv}

The research is simply confirming our common sense. Once our basic material needs are met – food, clothing, shelter, health care, – we know that the quality of our life depends far more on the quality of our relationships – friends, family, community, society – than on quantity of

income or wealth. Our happiness also depends on our having a sense of purpose and meaning in life. Without purpose and meaning, there is no sense of rightness or goodness in what we do. Once our basic economic needs are met, the pursuit of happiness is about developing the social and spiritual dimensions of life, rather than striving to acquire more income or wealth. For the vast majority of Americans, including those on small farms, the economic problem has been solved.

However, Keynes also wrote, “There is no country and no people, I think, who can look forward to the age of leisure and abundance without dread. For we have been trained too long to strive and not enjoy... It will be those people, who can keep alive, and cultivate into fuller perfection, the art of life itself, and do not sell themselves for the means of life, who will be able to enjoy the abundance when it comes.” The challenge of making a good living, for farmers and for society in general, is not to continue selling ourselves for the means of life or to exhaust ourselves in the pursuit of profits, but to cultivate the art of life itself, to learn to live wisely, agreeably, and well.

That's what making a good living on a small farm is about. That's what sustainable farming on any size farm is about: learning to live wisely, by taking care of the land and farming in harmony with nature; learning to live agreeably, through positive personal relationships within families and communities; and learning to live well, by knowing when we have enough money and enough “stuff” to support a good way of life. Some farmers obviously need to make more money, but most farmers, like the rest of us, already have more than enough. Making a good living on a small farm ultimately is about learning how to live wisely, agreeably, and well.

End notes:

ⁱ Wikipedia, The On-line Dictionary, “farm.”

ⁱⁱ John Maynard Keynes, *Essays in Persuasion*, (Miami, FL: BN Publishing – no copyright date) pp. 366-368.

ⁱⁱⁱ Diener and Seligman, “Beyond Money,” *Psychological Science in the Public Interest*, 5 (1), 2004, 1–31.

^{iv} Oliver James, “Children before cash; better childcare will do more for our wellbeing than greater affluence,” *The Guardian*, May 17, 2003.