

POLICY ISSUES AFFECTING AGRICULTURAL ALTERNATIVES

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Today's farmers are seeking alternatives to that most traditional of farm income sources—the production and sale of major commodities.

The farmers' interest in these alternative economic opportunities is being augmented by that of a number of national organizations that view the alternatives as a way to encourage rural revitalization. Proponents include departments of agriculture and economic development at the state level and such regional and national organizations as the Extension Committee on Organization and Policy; Extension Service, U.S. Department of Agriculture (USDA); the U.S. Senate Agricultural Committee; the Tennessee Valley Authority; the National Governors' Association; and the Council of State Governments' Center for Agriculture and Rural Development.

Nonagricultural Alternatives

Nonagricultural alternatives such as camping, fishing, hunting, ranch and farm tours, bed and breakfast facilities and participatory farming activities have become popular as alternatives or supplements to traditional land usage and income sources. I will not dwell on these nonagricultural activities here, however the policy issues and questions raised in this paper are generally applicable.

Agricultural Alternatives

Agricultural alternatives for diversifying a producer's income base are numerous. Specialty enterprises that generate products for which the consumer is willing to pay top dollar; special marketing strategies designed to attain higher returns; and value-added enterprises that produce additional returns on the land or human resources invested in basic agricultural production are three of the ways today's farmers are attempting to increase and stabilize their incomes.

Specialty Enterprises

Specialty enterprises may include producing and marketing such crops as exotic fruits and vegetables not normally produced in the United States; maintaining herds of specialty animals, such as goats or sheep, for their milk and milk products and/or fiber production; or engaging in aquaculture. Production and marketing of specialty items such as goat's milk or ethnic fruits and vegetables can be especially lucrative in agricultural areas near large cities with sizable ethnic populations. Exotic fruits and vegetables have been in increasing demand as consumers have become more affluent and broadened their tastes for a variety of foods. The growth of the aquaculture industry has been spurred by increased demand for fish and shellfish.

Marketing Strategies

Today's marketing strategies include searching out and meeting special needs. By providing a product to a specific market between available supplies from major producing areas, for example, farmers can frequently command higher prices. Filling such "market windows" has been the subject of a number of analyses. Examples are provided by O'Rourke (p. 68) and Mook (p. 82).

Other marketing niches are created by health food stores and concerned consumers demanding organically grown and pesticide-free products and by upscale restaurants willing to pay for high-quality product forms, such as uniformly-sized, unblemished potatoes for baking, baby vegetables or meat trimmed to certain specifications.

Value-Added Enterprises

Generating additional returns on the land and labor invested in agricultural production can be achieved by creating new products from, or uses for, a basic commodity or by capturing some of the profits associated with processing or packaging.

Value-added enterprises can provide an outlet for farm production, supplemental employment for farm family members and general rural revitalization opportunities. A number of smaller growers can be organized to produce specialty crops grown for processing by a local private or cooperative processing plant. In areas in which a commodity historically has been produced, such a move can give new life to local processing facilities supplanted by more modern facilities in concentrated commercial production areas. Modernization of abandoned or outdated facilities may be required to make high-quality products that are cost competitive, however.

Economic Feasibility

Alternatives may be technically feasible without being economically feasible. Analysis for economic feasibility is crucial both to individuals considering engaging in such alternatives and to legislators and administrative agencies evaluating their financial or policy support.

In any evaluation of the economic potential of various alternatives, special attention must be directed to the need for entrepreneurial skills; the aggregate impacts of additional economic activity; the availability of market access; and the complexities of engaging in value-added enterprises.

Entrepreneurial Skills

Entrepreneurial skills are one of the most important and possibly most often overlooked factors to weigh when analyzing the economic feasibility of a proposed alternative. The straightforward management of production, financing and marketing may no longer be sufficient to assure profitability. Creating new products, developing markets and capitalizing on new marketing concepts are essential skills for successful diversification.

Entrepreneurial and managerial skills are not synonymous and many good managers are totally lacking in entrepreneurial skills just as entrepreneurs may not be the best managers. While managerial skills can generally be taught, it is less certain that entrepreneurial skills can be.

Aggregate Impacts

The aggregate impacts of additional producers entering a particular enterprise or market must be considered when evaluating economic feasibility. Estes points out that “. . . even modest production expansion efforts must be accompanied by concomitant expansion in a non-local distribution network or horticultural crop production will be an unprofitable venture for new and existing growers” (p. 44).

Market Access

If the economic feasibility of *production* is important, the economic feasibility of *marketing* is critical. Estes points out that for horticultural crops, “. . . unstable farm prices, higher production risks, and an inability to secure assured market outlets will limit profit potential . . . oftentimes, the *capability* of growing a fruit or vegetable crop is confused with an ability to successfully market the crop at a price sufficient to cover total costs” (p. 43).

Access to existing markets is a primary concern. New producers of fresh horticultural crops may find entry into established marketing channels blocked by written or verbal contracts between wholesaler or chain store buyers and their established suppliers. Buyers may be unwilling to go around these channels even for short periods of time unless they can obtain a significantly higher quality, lower price or some comparative advantage, such as marketing a local product to chauvinistic consumers. Breaking into the processing market may be even more difficult considering the assured supply needs of processing plants that demand certain product qualities and must be kept running continuously at capacity.

Value-Added Enterprises

The quest for opportunities to “add value” to a product to generate additional returns on land or human resources invested in agricultural production provides further need for economic analysis.

A substantial research commitment may be required to define markets and develop economically viable products, product uses, packing and processing technologies. If the value-added enterprise is capital or labor intensive, it may require access to substantial risk financing for equipment or to develop cost effective labor. Value-added production may require access to additional inputs to supplement the basic agricultural commodity.

Feasibility Analyses

The preceding are some of the managerial and economic issues that need to be analyzed to determine the economic feasibility of agricultural alternatives. Land grant university researchers and extension workers may be required to provide production advice on, or economic analyses of, alternatives. The more timely the economic analysis and its entry into the decision process, the more likely it will impact the final decision and/or nature of the project. Specific factors to consider, items to be included in, and data needed for, feasibility analyses can be found in Cain and in several papers in *Analyzing the Potential for Alternative Fruit and Vegetable Crop Production Seminar* (Estes) and *Alternative Farming Opportunities for the South* (Southern Rural Development Center). Extension farm management and marketing specialists in your state also can help provide useful guidelines for analyses, needed data sources and analytic assistance.

Policy Issues

Perhaps the broad policy issues underlying the entire question of agricultural alternatives are the extent to which policy-based barriers or disincentives preclude or hinder them and what new policies may be needed. The roles of various agencies and institutions in de-

veloping and administering such policies may deserve special attention. Several more specific policy issues are discussed in further detail in the following.

Institutional Roles

One major issue is the proper role of the land grant universities, state departments of agriculture and commerce and federal agencies in advocating or analyzing entry into such alternative economic opportunities. State governments promote development of such activities. The land grant universities educate and provide research-based knowledge and economic analyses. Federal agencies facilitate and provide incentives, but also may need to remove potential barriers to alternative agricultural enterprises inherent in other programs or regulations they administer.

I do not believe that the land grant universities have a major role in providing feasibility analyses for individual growers, though data, information and publications outlining factors to be considered and approaches to such feasibility analyses are certainly within their realm of responsibility. The role of land grant university economists and extension specialists, working with state and federal administrative agencies or grower groups, is more complicated. Should land grant university economists and extension specialists take the lead in analyzing various alternatives? Does a good working relationship exist between the university and state agencies that often take the lead in pushing development of alternatives? As Babb and Long point out, "The best efforts of all participating agencies will be required to insure that good factual information, rather than 'boosterism,' forms the basis for decisions" (p. 16). And it is better to provide economic input early before the decision making process has reduced the economist to confirming or contradicting decisions already made, an uncomfortable role especially if analysis leads to conclusions contrary to those being promoted by various interests.

Entrepreneurial Skills

The need for more highly developed entrepreneurial skills to successfully pursue the new alternative economic opportunities leads to other policy issues. For example, in terms of managerial attention, timing of production activities and general knowledge of horticulture, producing and marketing perishable crops may be significantly more demanding than producing and marketing major commodities. If a sufficient number of growers or agricultural leaders lack the management and entrepreneurial skills required to create products, develop markets and capitalize on new marketing concepts, success may depend upon the availability of adequately trained resource personnel from land grant universities and other public agencies to help deal with potential managerial problems or the availability of educa-

tional programs to improve entrepreneurial skills. Do the land grant universities have the research base and extension personnel to teach needed entrepreneurial skills? Do state departments of agriculture or commerce have expertise to share on entrepreneurial and managerial skills needed for market development and product introduction? What education and technical assistance may be needed to capitalize on new marketing concepts?

Economic Feasibility

The economic feasibility of alternatives presents additional policy issues. Babb and Long identify major impediments to potential success and detail the importance of information needs. "Enterprise specific costs and returns data, efficient management practices, marketing alternatives and market outlook information will be needed, perhaps even more critically than for conventional enterprises where there is more experience" (p. 15). Certain macroeconomic factors will affect the potential profitability of alternative agricultural activities, e.g., how are interest rates expected to fluctuate over the next few years, and how will this situation affect the feasibility calculation? How are export and import policies expected to influence market opportunities, both for domestic sales versus competing imports and for export sales in the face of possible barriers to entry from other countries? Current General Agreement on Tariffs and Trade (GATT) negotiations on agricultural products may change the ground rules over the next several years and the outcome is uncertain.

Are policies needed to encourage research or extension education efforts to help identify economically feasible alternatives and provide assistance in initiating projects? Does the support base exist within the state legislature, within the governor's office or at the university level to establish needed policy and funding changes?

Does current commodity policy have negative impacts on developing alternative agricultural enterprises? Are program payments sufficiently high to make continued production of major commodities under program more feasible than producing alternatives? How long can such support be counted on? If payments are removed, does it change the economic feasibility of the proposed alternatives?

For enterprises requiring substantial capital financing, is the economic feasibility sufficient to attract capital in the competitive market? Otherwise, is the state willing to provide tax incentives, loan guarantees or other forms of support to help assure access to needed capital? States often make financing available for industrial economic development by creating tax incentives or programs to guarantee loan repayments. Are similar subsidies needed to facilitate or encourage development of agricultural alternatives?

If the alternative enterprise being considered is labor intensive, is sufficient labor available at rates that make the project economically viable? Or are sufficient benefits seen for the state to merit subsidies for training to improve labor productivity or skill levels, and what state or federal programs could fund the training? If seasonal labor would be required, what policies or programs would be needed to attract it and provide suitable housing and social needs?

To the extent that supplies other than the basic agricultural commodity are needed for value-added enterprises, are policies needed to help develop their local production? Is an improved transportation network needed and how would that be financed?

Aggregate Impacts

The aggregate impacts of increased numbers of producers entering a market generate more policy issues. Are other states exploring or developing the same activity? Do other regions or states have a comparative economic advantage in terms of production conditions, lower transportation rates or well-established access to primary markets? How will existing producing areas react to new competition? Are their production costs low enough to withstand potential price decreases associated with increased supplies, or are unexploited markets available to accommodate the increased production without depressing the overall market?

Could state and federal market expansion policies help develop alternative agricultural opportunities? Are generic commodity promotion programs, under state or federal marketing orders, or under special federal legislation, needed? The long-run economic returns from such market promotion and development programs have not been determined. For a review of research results on returns on investment in generic promotion of agricultural commodities, see Armbruster and Myers.

Market Access

Policy issues also result from concerns about market access. Market access may be limited by policy-imposed barriers at the federal or state level. For example, sanitary regulations for dairies selling into a particular city market may be anticompetitive, and not really necessary to maintain health standards. Such barriers may exist between states or even within major city markets in which long-established producers or processors have succeeded in tailoring state or local policies to their advantage. Do marketing orders set quality standards above the capabilities of new production areas that would be subject to the regulations? Are marketing order production-volume exemptions sufficiently generous to allow non-compliance in

local markets for small producers? Do historical base requirements—in production quotas or marketing volume-based quotas under marketing orders—preclude growth that could make the project feasible for new entrants?

Are new federal or state policies needed to help assure market access? For example, are minimum quality standards important in developing a product quality image? If so, federal or state marketing orders preventing marketing of lower quality produce could help establish such an image. This implies that policy tools, e.g., marketing orders, may be a help or a hindrance. Specific analysis is required for each situation or proposed activity.

Do current antitrust laws and their enforcement prevent predatory practices that could make it difficult for new enterprises or organizations to gain market access?

If market access is not available, a cooperative can be formed, financial support generated to hire a private marketing firm, or, alternatively, the individual producer/entrepreneur can develop the marketing system. If new markets must be developed, how much will it cost and how long will it take? Since price or service concessions may have to be made to gain access to existing market channels, sufficient funding should be available to allow losses to be absorbed during the introductory marketing effort.

The USDA's foreign market development programs could be used to help open new markets for a product. These programs normally require the local organization to provide one-third of the funding while USDA and the country in which the market development activities are taking place each provide one-third. Increased funding for these foreign market development programs has been made available under the Targeted Export Assistance program of the Food Security Act of 1985. However, targeting a product toward both domestic and international markets can create additional issues. Is it possible to satisfy the sometimes quite different demands of U.S. and foreign markets with the same product characteristics, product quality and marketing system? A major stumbling block to successful overseas marketing can be eliminated if these market preferences are dealt with in the planning period.

Government policies may also limit access to international markets. Tariff and nontariff barriers and taxes come readily to mind. Varying foreign sanitary or pesticide-free requirements may provide another barrier since smaller operations in particular may find such requirements prohibitively expensive to comply with. Are there specific trade issues involved in GATT negotiations that may affect the feasibility of the project? Are there items that need to be brought to the attention of federal agencies for consideration? Are policy changes needed to remove market barriers, or improve the long-run project feasibility?

Value-Added Enterprises

What policy issues arise from the production and marketing of value-added products? If a product is competing with established domestic or international products, does it offer an economic or quality advantage? If a new product is being produced, how difficult and costly will it be to develop a market? If a product, such as gasohol, must compete with products currently manufactured from other inputs, what cost advantage or desirable characteristics make it the attractive alternative? Producers aiming at particular marketing niches or considering alternative marketing strategies face similar issues.

Otto and Williams argue "that the higher the level of processing associated with a commodity, the greater is the number of jobs that are added to the state's economy" (p. 2). States pursue value-added industries in agriculture as a means of fostering economic development. But it is important to analyze who will be the likely beneficiaries of proposed value-added enterprises. Holt argues that commodity groups frequently favor research on new products or processing techniques that would primarily benefit the processors. "When weighing such proposals against alternatives, they often do not consider the distribution of benefits between processors and farmers" (p. 5). Paarlberg supports that contention in the case of policies to subsidize exports of high value products. "Such a policy may shift income from farmers and landowners to owners of capital in the processing sector" (p. 4).

To provide an adequate research base for some new products or technologies may require the land grant universities to commit significant funding. Is such funding likely to be available through special state or federal appropriations? Are private funding possibilities such as commodity check-off programs available? Would research funds need to be reallocated away from current uses and, if so, how might this affect the involved industries, producers and consumers? Is sufficient economic return likely to be achieved to merit such funding in these times of tight budgets? Are extension personnel abreast of research results and have they developed appropriate educational materials or programs to deal with value-added enterprises?

Conclusion

There is a groundswell of interest in specialty enterprises, more sophisticated marketing strategies and the development of value-added enterprises as a means to agricultural diversification and rural revitalization. However, the preceding overview of some of the economic factors and public policy issues involved indicates the complexities of this movement.

Carefully selected activities may offer substantial public and private benefits to some producers, regions or states. Public policy and financial support or subsidies may be necessary and desirable in some instances. In the long-run, such alternatives must be economically feasible to succeed.

Naive pushing ahead without thorough analysis of the economics involved could be financially disastrous. Proper analysis will help identify the potential public and private benefits, the underlying costs and needed public policy support. Careful attention to the questions identified in this paper will require those concerned to face the difficult public policy issues involved.

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