



# The Northeast Sustainable Agriculture Working Group

P.O. BOX 608, BELCHERTOWN, MASSACHUSETTS 01007 • PHONE 413/323-4531 • FAX 413/323-9594 • NESAWG@smallfarm.org

## *Farm Profitability vs. Consumer Affordability*

Tracy Frisch

Regional Farm & Food Project  
27 Elm Street, Albany, NY 12202  
(518) 426-9331

In some circles, there is a perceived tension between the farmer's quest for a decent return on their labor and investment and the consumer's desire for affordable food. On the other hand, a basic tenet of the Community Food Security movement is that small and family-scale farmers and the poor and disenfranchised can be aligned in mutually beneficial relationships and economic exchanges. In this paper, drawing heavily from the perspective of small farmers, I will discuss some influences on the profitability of family-scale Northeastern farms and how their survival strategies impact the price of their products.

Part of the reason for the tension between farmers' income and consumers' perception of what they can afford is the public's disconnection from agriculture. In an article entitled "Raise Your Prices (Without losing your customers!)" in [Growing for Market](#), October 1998, Paul Arnold explains that he and his wife have raised their prices at least 100 per cent on everything in the twelve years since they became market gardeners. Occasionally people challenge their prices but according to Paul, "totally understand," when the Arnolds explain that "we have a minimum value we must have in order to make a living at farming."

The future for the small farm is not in production for commodity markets. This prediction is especially true for those on the urban fringe or in other areas characterized by high land and labor costs or less than

optimal growing conditions. In addition to the many hats worn by today's farmer as producer and manager (i.e., horticulturalist, supervisor, mechanic, welder, carpenter, equipment operator, small business owner, veterinarian, etc.), his or her survival depends upon assuming the role of marketer as well.

Small and medium sized farms that continue to ship their products as commodities, rather than adding value by marketing them as special, are at a significant disadvantage as price takers. Farmgate commodity prices fluctuate in response to changes in supply and demand and other less rational factors affecting national and international markets. Frequently they dip well below the average cost of production. Farmers make up the difference by tightening their belts, deferring needed maintenance and investments, and depending upon government subsidies (being phased out), their own and other family members' off-farm income, loans they may ultimately default on, and sales of farmland for development of farm consolidation accelerates.

Another possible key to farm profitability involves adopting sustainable production methods. Such approaches generally reduce purchased inputs and the need for expensive equipment and infrastructure; they sometimes require more labor (costly) and skilled management not always present). Sustainable agriculture aims to prevent the hemorrhaging of the farm economy by giant chemical and other

agribusiness corporations. By making their farms more biologically self-reliant and farming with the long-term productivity of the land at their object, farmers can keep more money in their pockets and within the rural community. A good example is management intensive grazing, where cows or other ruminants are rotated to new paddocks at short intervals, i.e., daily, allowing grasses and clovers to rest and regrow, and yielding significant advantages in feed quantity and quality.

In theory, farmers gain larger returns by using biological wisdom and thrifty decisions to reduce their actual costs. In reality, the results are variable, depending in large part upon the farmer's management skill and knowledge, and how willing he or she is to risk change and readjust practices and worldview in the face of new information. Some farms, of course, also command a premium in the marketplace for their organic crops, organic milk, or hormone-free meats, for example -- even when they sell their products as commodities. However, many other farms with reduced chemical usage and more sustainable methods have not found it feasible or worth the trouble to look for a marketplace advantage.

It might seem as if when farmers "cut out the middleman" to sell direct to the public or other end-users, they should be able to sell at a lower price than supermarket retail. But farmers bear tremendous costs, both actual and in terms of their own time doing the trucking and marketing which takes them away from their fields. The bottom line is that farmers doing their own marketing to consumers and other end-users shoulder considerably larger per unit transportation and sales costs than are borne by the corporate food system. In on-farm and small-scale processing, this contrast is even more pronounced.

In some types of agriculture, such as livestock and dairy, selling directly or outside of the normal commodity market channels also can require a

pioneer mentality, as there are few models. Dairy farmers who bottle the milk produced on their farms must invest a substantial amount of capital, bring in more family or outside labor to operate their processing plant, and effectively sell (and in most cases, deliver) a highly perishable product day in and day out. Farmers marketing their own farm-raised meats also face the challenge of building up and maintaining their customer base, as well as the high per-animal trucking and processing costs. Government restrictions (food safety requirements and the state and federal Milk Marketing Orders) severely limit farmers' options in both forms of animal agriculture.

In selling at a farmer's market, farmers spend a substantial amount of the day selling their products as well as their travel and set-up time. Those with roadside stores or stands bear the costs of the building investment and the sales staff, and sometimes legal permits. Some Community Supported Agriculture farms are able to delegate member recruitment, bookkeeping, and/or weekly distribution of shares to their core groups, but even these lucky CSAs need to factor in time to coordinate the complexities of planting and harvest of dozens of vegetable varieties.

Consumer affordability is an interesting concept. Should consumers pay more for quality and freshness? Is food too cheap in this country, where it accounts for a small fraction of per capita expenses than in other industrialized nations?

Let us not forget that the price paid by the consumer and the price received by the farmer are in no necessary relationship (unless the purchase is made directly from the farmer). Of course, farmgate price increases seem always passed on to consumers. But when farmgate commodity prices drop precipitously, as in the case of milk last year and beef and pork at the present, the retail price typically does not reflect the change. A custom meat processor who serves on our Livestock Marketing Task Force remarked that the

price of meat bought through conventional channels is up (as are the profits of the IBP, one of the nation's three largest meat packers) while the price paid to farmers continues to fall lower than ever.

A food that costs more is not necessarily a better product. Trendiness and promotion can send an item's price through the roof. But foods that cost less are probably unsustainable. That is, cheap food, with only a tiny fraction of the consumer food dollar going to the farmer, does not enable farmers to invest in long-term productivity of their soils. Nor does it give existing farmers the means to stay in agriculture or members of the next generation the ability to embrace farming as a career and livelihood.

Many farmers undersell themselves and might not even expect to derive a genuine living from their work, investment, and heritage. Frequently in my experience farmers don't have a good idea of their costs of production (i.e., per unit or per acre). Many have grown used to living off of their acquired or inherited capital and are unable to take into account the costs of adequately maintaining and upgrading their farms and paying off their debts.

Some sell low, expecting to make up for their losses in volume. However, sometimes producing more actually increases the costs per unit. For instance, a small farmer expanding beyond family labor, will need to pay wages; obtain Workers Compensation insurance; increase bookkeeping and maybe hire someone to do payroll; hire and train; and have contingency plans when employees quit or don't show. Mechanizing an operation or tripling the size of existing equipment may or may not save money, depending in part upon the capital and maintenance costs of the equipment and the market for the agricultural product. Sometimes a farmer can sell a small amount of a product at an excellent price, but ends up unloading a considerably larger volume for a much lower price.

The trend to niche markets which command substantially higher prices is (1) extremely logical for the farmer from an economic perspective, and (2) can be disturbing for consumers with low and moderate incomes. As a farmer seeking a way to reap a reasonable return, creating an image around one's product in order to gain a much better price makes tremendous sense. For some products, this "adding value" strategy need not take a lot of extra labor or capital, and can mean the difference between the farm succeeding or going under. A related option is to produce things for which the price is more elastic than basic foods. In a farm profile published in the Community Alliance with Family Farmers' newsletter, farmer Jerry Thomas says, "People who balked at apples for 30 cents a pound, turned around and bought a bouquet of statice for \$1.50 without blinking."

How many people balk as the price of fresh quality produce for eggs or ...) yet succumb to the lures of junk food, processed food, fast food, or restaurant meals? Many of us recognize that in comparison to ready-to-eat food, organic and farm-direct whole and minimally processed foods are not expensive. They certainly have greater nutritional value (and also feed our senses and spirit). But only a small portion of the contemporary American diet is fresh fruits and vegetables, and other non-processed foods.

While convenience foods are very costly for family-scale farmers to deliver, most of the population has asserted its willingness to pay dearly for it. As farmers are being drawn into the realm of processed foods, some of them report learning several lessons.

(1) It is cheaper to buy in the raw materials as agricultural commodities than to produce them on one's own farm; the money is to be made in processing or marketing (depending upon the item) rather than production. (Nonetheless, some farmers have the integrity, pride, and commitment, or simply the love of farming, to maintain their own production from field to the customer's table).

- (2) Processing food on a small scale is very costly so products must be sold for a much higher price than the major brands.
- (3) At the most extreme, why not position oneself as a marketer of specialty products and contract out the other steps (i.e. production, processing, and distribution). These conclusions both lead farmers away from agricultural production and negatively impact consumer affordability.

Can low income people support small and medium-size Northeast farmers? Of course. Are there interests strongly in synch? No. I do not believe that this is a match made in heaven. Nor is there any reason for low income advocates to have much of an understanding of what it takes to make it as a farmer in the late 1990's. In our society, these farmers and low income consumers are both marginal groups, each lacking in economic power. The Farmers' Market Nutrition Program represents an excellent attempt to create common interests among the two constituencies, which in many cases has been effective. Without significant subsidies though, which are not likely except in very limit circumstances, it is very difficult to ask struggling family-scale farms to try to make their production affordable to low income people.

In the long-run, consumers will benefit from paying more for their food if it supports a viable future for family-scale farming in the region. Without the security of these farms, corporate agriculture and food manufacturers will have a monopoly on our sustenance. As this domination increases, we can be assured that food prices will not be getting any lower, only that our food dollar will not be reaching the family farmer.