



## Specialization or Diversification?

April 29 // Bruce Sorte // Hermiston, Oregon

Farming and ranching are often used as examples of perfect competition – lots of firms, products are not differentiated, producers can sell all they can produce as long as they take the price that is offered, and the price barely covers the costs of production.

As Kristian Foden-Vencil's report on Tuesday from Shedd pointed out, while it may be perfect for consumers the market is a constant struggle for the producers trying to wring a profit out of a single product or trying to diversify – other farmers spot a farmer making money on radishes, they grow radishes, and prices decline until profit disappears.

When I was growing up not far from Shedd a half a century ago, I started working in agriculture picking berries and beans. In high school, a typical summer day would be - move irrigation pipe in the mint, then the sugar beets, cultivate the corn, gather the sheep and head them towards the shed, lose the sheep in the corn patch, reorganize the flock of sheep and get them to their shearing appointment, eat dinner with the farmer, make the last irrigation set on the sugar beets and head home. All this was working on a diversified farm and it was great.

Prices, labor costs and the regulatory environment have dramatically changed in that half century. Regulations affecting all aspects of food production have increased exponentially. Minimum wage laws, other labor laws, conflicts over immigration, and liability concerns have grown. As Adam Smith pointed out 235 years ago, specialization and increasing scale lower the costs per unit of output. When farmers and ranchers are producing commodities and cannot affect price, they must do what they can to reduce costs.

Kristian provides examples of specialization in single crops becoming the norm. The single crops are typically grown on large farms utilizing big equipment and chemicals for pest, weed, and fertility management. That way farmers and lots of hungry people around the world can survive.

In addition, Oregon passed land use laws to protect against urban sprawl that further discouraged small diversified farms or ranches. Rural communities stagnated or began shrinking because the workers required for agricultural production were declining at an increasing rate.

Recently with a number of other scientists, I completed a study for the Umatilla County Planning Department on the financial feasibility of 10-40 acre farms. We found that recent advances in production processes for agricultural equipment and inputs, improved communication technology – internet, and changing preferences of some consumers may allow adaptive farms

and more diversified conventional farms to be financially feasible. If the agricultural products are value added and sold in niche markets, the economic effects to producers and rural economies can be in the thousands of dollars per acre compared to the hundreds of dollars per acre for commodity crops.

As desirable as the local foods movement looks, price continues to be the primary determinant of what consumers purchase. Adaptive farms and diversified conventional farms will struggle to create and maintain markets. We have very few examples of local producers developing markets which can support processing facilities that meet government requirements. So, the products need to be sold directly to the consumers in places like farmers' markets. The percentage of farmers and ranchers who directly market is in the low single digits and the percentage of total sales from directly marketed products is lower yet.

If those percentages are going to increase, government will need to intervene in the market and reimburse a greater portion of producers' costs to meet processing and labor regulations, reimburse institutional customers like schools and hospitals for the extra cost of locally grown food – a proposal that has failed in the last two legislative sessions and we will need a federal law that gives some certainty around immigration.

Consumers would also need to strengthen their knowledge of and appreciation for locally grown food. Their appreciation would need to be sufficient for them to consistently pay a higher price for food and so give-up another expenditure on a movie, electronic device, or gallon of gas. As tough as it sounds, even small gains may be worth it when we consider strawberries that highlight the taste as well as the appearance of a salad or dessert or a wool blanket that makes winter nights a dream.

Posted at <http://www.rippenw.org/authors/26/posts/119>