

Chicago Fed Letter

Labor issues facing agriculture and the rural Midwest

by David B. Oppedahl, senior business economist

For years the rural Midwest has faced concerns about its falling population, waning work force vitality, and increasing health problems—all of which have contributed to slower economic growth relative to that of the region's urban areas. The Federal Reserve Bank of Chicago and the W. E. Upjohn Institute for Employment Research held a conference on November 16–17, 2015, to address labor-related issues confronting the Midwest's rural economy and, in particular, its agricultural sector.

Experts from academia, various industries, and policy institutions gathered at the conference to discuss trends in rural and farm labor markets; examine policies that affect nonmetropolitan and agricultural employment (including immigration policies); and explore possible strategies to position the Midwest's rural economy and agriculture for prosperous futures.

To frame the conference's conversations, David B. Oppedahl, senior business economist, Federal Reserve Bank of Chicago, pointed out that many midwestern rural communities are jeopardizing their long-term survival by not generating enough well-paying jobs. This reality has prompted new efforts by some of them to broaden and diversify their economic bases (e.g., by transforming themselves into destinations for vacationers and retirees). Moreover, earnings from farm employment remain a key component of rural income in the Midwest, even though off-farm employment is often vital for the livelihoods of many agricultural families. Households associated with large commercial farm operations derive the vast majority of their incomes from agriculture, but do make some income from nonfarm sources; in contrast, "residence" farm households, whose operations are relatively small, get most of their income away from the

farm and actually incur losses from farming operations, on average.¹ Oppedahl noted that there are many policy issues that are of concern to farming operations of all sizes. For one, the policy debate about immigration is relevant to farmers because many immigrants (whether authorized to be in the country or not) fill agricultural jobs that would otherwise go unfilled. For another, Oppedahl said that improved access to health care resources—particularly effective insurance coverage and health care infrastructure (such as hospitals and clinics)—is critical for the future prosperity of rural areas of the Seventh Federal Reserve District.²

The labor market and monetary policy

In his keynote address, Daniel G. Sullivan, executive vice president and research director, Federal Reserve Bank of Chicago, provided his perspective on the nation's labor market and monetary policy. He highlighted the solid progress in private nonfarm payroll employment over the past six years. However, he pointed out that inflation according to the Personal Consumption Expenditures Price Index has remained below the 2% target³ established by the Federal Open Market Committee (FOMC)—the monetary

Some materials presented at the conference are available at <https://www.chicagofed.org/events/2015/annual-agricultural-conference>.

polymaking arm of the Federal Reserve System. Sullivan noted that appropriate monetary policy would entail raising the federal funds rate target (the Fed's conventional short-term interest rate policy tool) in the coming years. Yet the federal funds rate's future path would depend partly on the return of the inflation rate toward the 2% target, which in turn depends partly on the amount of slack in the labor market. Labor market slack has been shrinking steadily since 2010—as reflected in the unemployment

force has aged more rapidly and has fallen behind in terms of educational attainment—both of these trends create challenges for rural employers.

Rural work force issues

Carolyn J. Hatch (Purdue University) spoke in greater depth about work force challenges that persist in rural areas. Hatch contended that globalization has pressured various enterprises (whether based in rural or urban areas) to tailor and customize their products or services

address these issues; rather, a community-wide collaboration, based on strong local leadership, would be necessary to improve the work force readiness of young people in rural areas; to continue developing the skills of older workers already there; and to recruit qualified candidates from elsewhere.

Scott Loveridge (Michigan State University) discussed various health issues of the rural work force. Poor worker health hurts firms because it leads to absenteeism, lost production, and higher premiums for health insurance. Loveridge said that the overall health status of rural areas trails that of urban areas. For instance, hypertension and male suicide rates are higher in rural areas than in urban areas. Also, a high incidence of smoking, alcohol overuse, and substance abuse have created health problems in rural regions. For decades, he said, methamphetamine use has been a persistent problem in rural areas, but more recently opioid use has been on the rise. Turning to rural health care systems, Loveridge noted 470 rural hospitals were shuttered in the past 25 years, with lower Medicare payments factoring into these closings. Moreover, only 10% of all physicians serve in rural communities, whereas 25% of the total population resides in them; this often translates into a medical provider shortage in nonmetropolitan parts of the country. Rural areas have a disproportionate number of disabled veterans, but too often lack the services to help them adequately. Additionally, veterans in rural communities do not have sufficient local access to mental health professionals. Loveridge cautioned that these challenges will only get harder as demand grows for rural health services, in part because of expanded insurance coverage under the Affordable Care Act (ACA).⁵ Yet, there are ways to counteract these problems, he said. “Telemedicine” offers hope to rural people for greater access to medical treatment; however, it also decreases the physical presence of high-wage-earning doctors in rural areas (hurting the tax base) and likely extends distances for emergency care. Loveridge argued that beyond such innovations, rural communities must focus on prevention strategies to improve health.

For rural midwestern communities to thrive, highly skilled workers will need to be developed, supported, and retained through coordinated community-wide strategies.

rate declining from its 10% peak in October 2009 to 5% in October 2015. Even though the unemployment rate has begun approaching levels that the Chicago Fed has deemed consistent with the path of the natural rate,⁴ wage growth has been slow to improve, remaining below levels that would normally be seen as consistent with an economy experiencing an unemployment rate of 5%. Rural areas have lagged the nation as a whole in the downward movement of unemployment, yet rural wage growth has kept up with national wage growth. Labor force participation—another measure of labor slack—has fallen for the U.S. even more than expected when accounting for long-running demographic trends (such as the movement of baby boomers into retirement ages). Sullivan noted that labor force participation in rural areas mirrored the national trend (yet was higher when adjusted for age, gender, and educational attainment, implying that rural areas have a higher effective share of their residents in the labor force when accounting for differences in population profiles). Labor force growth has slowed for the nation as a whole over the past 15 years; and the labor force has actually declined for rural America during the same period. Thus, the rural share of the total labor force for both the U.S. and the Midwest has decreased over time. Additionally, compared with the nation's overall labor force, its rural labor

for their customers and to fill market niches. To meet these business goals, highly skilled workers with strong technical knowledge are needed. The fact that rural areas have a lower percentage of workers with at least a bachelor's degree (18% in 2014) than metropolitan areas (30%) reflects a competitive disadvantage. Moreover, population losses have plagued many nonmetropolitan counties in recent years, resulting in a smaller potential work force. Hatch explained that given (net) migration away from rural areas and changing birth and death rates within them, the population share of older cohorts there rose between 2003 and 2013, while that of younger cohorts fell. Thus, it is not surprising to see that employment growth in rural areas has lagged that of urban areas since 2010. Hatch stressed the importance of developing highly skilled workers in rural communities, as well as attracting talented employees from outside. But she argued there are many impediments to building and maintaining a strong rural work force—e.g., stigmas against manufacturing careers, disincentives to train and develop staff due to poaching concerns, poverty as an obstacle for educational attainment, lower wages and benefits relative to urban areas, lack of housing, and limited job opportunities for spouses of relocating workers. To close, Hatch emphasized it would take more than just individual employers or government programs to

Bidisha Mandal (Washington State University) spoke further about health care reform's impact on labor-intensive farm businesses. The ACA, which was enacted in 2010, has reduced the ranks of the uninsured across America; but Mandal said its impact on agricultural workers and employers remains uncertain at this point, given firms' option to substitute capital investment in technology for labor. Only 38% of workers in the agriculture, forestry, fishing, and hunting sector received health insurance coverage from their employer, compared with 67% of workers in other industries (per year, on average, over the period 1983–2013). (When spousal employer-based health insurance was also accounted for, these percentages increased to 52% and 81%, respectively.) Mandal noted that farm families often gain employer-sponsored health insurance coverage from off-farm employment. The low rates of employer-sponsored health insurance in the agricultural industry are related to the small size (fewer than 50 employees) of 97% of agricultural employers and their use of seasonal workers.⁶ Small farm operations face higher costs for purchasing health insurance than their larger counterparts because the former lack the scale to negotiate better rates with insurers. According to Mandal, employers that offer health insurance for workers view providing that benefit as a competitive advantage because it helps recruit and retain employees while reducing absenteeism.

Focusing on agricultural employment within the five states of the Seventh District (see note 2), Thomas Hertz (U.S. Department of Agriculture) provided some illuminating statistics. According to his analysis using *Current Population Survey* (CPS) data, the five District states' farm labor force is better educated, younger, more male, more single, and less ethnically diverse than the rest of the nation's. Using the same data source, he found that farm employment in District states rose 30% between 2003 and 2014 (he corroborated this finding using data from two other surveys over similar periods). Farm wages in the District states also increased over the 2002–14 period: 13% for average real

hourly wages, according to CPS data. Yet, farm operators continued to find ways to contain labor costs: From 2000 through 2013, total costs for hired workers plus contract labor as a share of the value of production for the five District states generally declined (in line with the national trend). Hertz said that through his research, he had been investigating the larger question of whether the era of abundant farm labor, based largely on the availability of unauthorized foreign workers, was on the wane. (At present, unauthorized immigrants are estimated to make up half of hired crop workers nationwide and a large—and rising—share of livestock workers.) Despite anecdotal reports of widespread farm labor shortages, Hertz presented scant evidence to support that any shortages were more than transitory in nature or localized in reach.

Immigration's role in the Midwest's rural work force

Kicking off the panel discussion on the role of immigration in the Midwest's rural work force was Mary Swander, the Poet Laureate of the State of Iowa, who read an excerpt from *Vang*—her play about immigrants working in agriculture. (The conference had begun with a full performance of *Vang*, followed by a policy discussion with Swander and others.)

The dairy industry, a vital economic component to numerous rural communities in the Seventh District, depends on immigrants to work in many roles. David P. Anderson (Texas A&M University) shared information about immigrant labor from a survey of dairy farms across the U.S. With 47% of the 1,000 usable survey responses from dairy farms in the Midwest, the region was well represented. Just over a third of dairy farms reported using immigrant labor in 2013, but almost 80% of total milk production came from these farms. Of dairy farm workers, 51% were from outside the U.S. Anderson calculated that a significant loss in immigrant labor at dairy farms would decrease milk production, increase milk prices for consumers, and cost the economy billions of dollars, as well as thousands of jobs. Such a scenario would likely speed up the adoption of robotic

milking technology, but raise the costs of management and production.

Diane Charlton (University of California, Davis) presented evidence that the supply of immigrant farm laborers has been dwindling since 1980, mostly because of changes in the population of rural Mexico: A falling fertility rate, rising levels of educational attainment, competition from Mexican farms, and increasing job opportunities stemming from industrial growth in Mexico have all contributed to the decline in farm labor available to the U.S. (which, in turn, has increased farm wages here). Charlton argued that according to her research, these factors far outweigh any changes in U.S. immigration policy in reducing the farm labor supply. Additionally, Charlton contended that U.S. agriculture must prepare for an era of farm labor scarcity by transitioning to less labor-intensive crops, improving management practices, and utilizing labor-saving technologies.

Baldemar Velasquez (Farm Labor Organizing Committee, AFL–CIO⁷) underscored the importance of making changes to U.S. immigration policy, especially to address the problems foreign laborers have encountered under

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guest worker programs. Velasquez contended these laborers should have the freedom to organize and collectively bargain with employers and industry decision-makers over compensation and working conditions. He asserted that by bargaining together, immigrant workers can more effectively address the inequities that push their families into poverty or, at the very least, ensure their families get adequate food, clothing, and education.

How can rural areas attract workers?

William Testa, vice president and director of regional research, Federal Reserve Bank of Chicago, moderated a panel discussion on ways to attract highly skilled workers to rural communities. To start the conversation, Testa pointed out some recent trends that may be troubling for such communities. First, corporate headquarters are increasingly based in large metropolitan areas, in part because labor productivity has generally been shown to be higher in big population centers than in less densely populated areas. Furthermore, well-educated workers have increasingly been drawn to large cities, perhaps because workers in large labor markets have tended to earn more than those in small ones. Not surprisingly, noted Testa, the quality of available labor was the top problem cited in survey results on the competitiveness of manufacturers in nonmetropolitan counties. Amenities available in a community (whether urban or rural) could serve as a recruiting tool for highly skilled workers. However, Testa commented that relative to other regions, the Midwest has far fewer natural amenities, implying that

the rural Midwest must find other ways to attract desired workers.

George S. Corona (Kelly Services) emphasized that small places must become more creative in differentiating themselves from large places, parlaying the advantages of living in relatively safer communities and having lower costs of living (compensating for lower wages). Corona recommended that communities strive to build a brand as a means to set themselves apart and attract workers. Educational institutions in rural areas can also help retain and attract highly skilled workers (e.g., by serving as recruitment centers for rural employers). Corona also stressed the value of training those already living in rural areas, mentioning that worker “boot camps” may be effective for boosting work skills.

According to Randall W. Eberts (W. E. Upjohn Institute for Employment Research), various types of work force programs (job fairs, mentoring, etc.) can aid rural workers in improving their skills to meet the needs of employers. Additionally, Eberts highlighted community-based programs that link rural high school students with financial assistance for postsecondary education. In addition to helping current residents, these programs might be used to attract families from elsewhere who would value this kind of support for their children. Eberts emphasized that high-speed Internet access must be improved to allow rural economies to flourish; this technology remains unavailable or quite expensive in many rural regions. Improving broadband Internet availability and

affordability would help rural workers connect with resources for job training and search while opening up telecommuting job opportunities for them.

Finally, Jerry Szatan (Szatan & Associates) shared his perspective as a site selection consultant to corporations. Szatan said that when firms are deciding where to locate their headquarters or branches, the quantity and quality of available workers are among their top criteria. Hence, community investments in work force development, including funding for training, can be invaluable. He also argued that to draw firms (and recruit more outside talent), rural communities need to start looking at their wider surroundings for assets they can use to market themselves. For instance, by documenting commuting patterns, rural towns can claim a larger available work force than one based strictly on their residents alone. Szatan stressed that communities that successfully draw new employers often feature strong leaders who collaborate well with leaders around their region.

Conclusion

In order for rural communities in the Midwest to thrive while facing issues such as those presented at the conference, they will need to invest in infrastructure (whether through private or public means or a combination thereof) to support growth. But even more importantly, strong rural leadership and highly skilled workers will need to be developed, supported, and retained through coordinated community-wide strategies.

¹ In particular, note the second chart at [http://www.ers.usda.gov/topics/farm-economy/farm-household-well-being/farm-household-income-\(historical\).aspx](http://www.ers.usda.gov/topics/farm-economy/farm-household-well-being/farm-household-income-(historical).aspx).

² The Seventh Federal Reserve District comprises parts of five midwestern states—all of Iowa and most of Illinois, Indiana, Michigan, and Wisconsin.

³ This target was first acknowledged in <https://www.federalreserve.gov/newsevents/press/monetary/20120125c.htm> and reaffirmed in https://www.federalreserve.gov/monetarypolicy/files/FOMC_LongerRunGoals_20160126.pdf.

⁴ The natural rate of unemployment can be defined as the unemployment rate that would prevail in an economy making full use of its productive resources; for a discussion on the changing labor force composition possibly lowering the natural rate to 5% or less, see <https://www.chicagofed.org/publications/chicago-fed-letter/2015/338>.

⁵ For more on health care reform under the ACA, see <https://www.chicagofed.org/publications/chicago-fed-letter/2014/june-323>. The challenge of increasing the number of workers with health care coverage in rural America via the ACA is discussed

in <http://www.hrsa.gov/advisorycommittees/rural/publications/ruralimplications.pdf>.

⁶ Under the ACA's employer mandate, employers with fewer than 50 full-time (equivalent) employees do not face financial penalties for not providing health insurance; see <https://www.irs.gov/Affordable-Care-Act/Employers/Tax-Considerations-for-Employers-with-Fewer-than-50-Employees>.

⁷ AFL-CIO stands for American Federation of Labor and Congress of Industrial Organizations.