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...
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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. 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–CIO) 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 recruitment centers for rural employers. 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.
2 The Seventh Federal Reserve District comprises parts of five midwestern states—all of Iowa and most of Illinois, Indiana, Michigan, and Wisconsin.
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.