

Network04

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From the Director

Economic Clusters and Agricultural Viability

Industry clusters are currently being discussed with great interest by both economic developers and policy makers. Clusters are seen as important engines of regional economic growth, and many states are identifying and promoting the industries that are already clustered or show clustering potential. However, at least two shortcomings are evident in recent work on clusters. First, the work tends to ignore the clustering potential of small- to medium-sized farms, and of farms that serve niche markets. This is a glaring omission because clusters can help offset the scale disadvantages that small producers face. Second, because cluster studies are usually commissioned by state governments, they tend not to look beyond state borders. In other words, they consider only industries within the state. Both of these omissions present an important opportunity for a regional entity such as The Northeast Regional Center for Rural Development, and we are presently examining farm and food industry clustering across the borders of states in the Northeast US.

Clusters are defined as concentrations of firms in particular industries that both compete and cooperate with one another, that share common inputs such as labor with certain skill sets, and that benefit mutually from new knowledge generation and spillovers by being located relatively

close to one another. These latter features set clusters apart from traditional associations of firms or farms, such as cooperatives. Industry cluster analysis addresses all of the constraints and opportunities facing an industry, and the clustering benefits accrue to the cluster as a whole, rather than only to individual firms. Industry clusters suggest new and important roles for the public sector, including public universities, and all existing or potential clusters are worthy of attention. An essential idea behind clusters is that it matters not so much what the firms of a region produce, but *how* they do so. In clusters, firms *compete cooperatively* and *cooperate competitively* with one another.

The importance of clusters and the agglomeration benefits they provide are increasingly recognized. Todd Gabe at the University of Maine has found that clustered firms invest more funds in worker training than do non-clustered firms, even in rural areas. Robert Gibbs and Andrew Bernat of USDA's Economic Research Service show that rural firms in clustered industries pay higher average wages than do firms that are not clustered. More generally, clustering has implications for state-level workforce training efforts and the types of curricula and programs offered by universities and community colleges. *continued on page 2*

Publications

RDP No. 23

What the Public Values about Farm and Ranch Land, Workshop Summary Proceedings, Charles Abdalla, 2004. Please contact The Northeast Center (nercrd@psu.edu) if you would like to receive a copy of the publication.

<http://www.cas.nercrd.psu.edu/Publications/RDPAPERS/rdp23.pdf>

RDP No. 24

Food, Agriculture, and the Emergent Service Economy: Challenges for the Northeast Region, Nelson Bills, September 2004. Please see page 3 for more information.

<http://www.cas.nercrd.psu.edu/Publications/RDPAPERS/rdp24.pdf>

Research Workshop

Please hold the date of May 3-4, 2005 for the **Regional Poverty Research Conference**, which is tentatively scheduled to be held at the Days Inn, State College, PA. A call for papers will be issued shortly. If you are interested in receiving a direct notification about the conference, please contact The Northeast Center. Phone: 814-863-4656; E-mail: nercrd@psu.edu.

It is less obvious how clusters develop, other than serendipitously, and how they should be sustained over time. Clusters may form spontaneously in a region based on natural resource endowments and other unique circumstances or historical accidents. For example, the location of the mushroom industry (see figure below) outside Philadelphia, PA has been attributed to the Volstead Act: in 1919, a large Italian family moved from Wilmington, DE to Chester, PA to pursue alternatives to brewing beer. Or, the clusters may be created as a result of local community and business action. At the same time, without on-going routine analysis, monitoring and nurturing, clusters may cease to exist altogether, or they may relocate to other areas as relative competitive advantages change. For example, the sugar beet industry that was started in Utah over 150 years ago by Mormon settlers recently withdrew completely from that state to consolidate in Idaho. Thus, a region that currently enjoys clustering benefits has no guarantee that they will last forever. A critical challenge for all US regions is to determine their competitive advantage in the global economy, and industry clusters are a key vehicle for describing, understanding and enhancing sources of regional competitiveness. In turn,

the pressure on a region to continually improve the competitive position of its firms is unrelenting.

Clusters can ameliorate many of the problems small farmers face, thereby serving as engines of regional economic growth for rural communities. In particular, clusters solve the problem of small scale by providing agglomeration economies, they provide access to enhanced labor pools with industry-relevant skills, and when properly implemented they influence the regulatory and legal environment as it impacts profitability and competitiveness of the industry. The following quote from Cornell University's Joe Walsh (Sullivan County, NY) illustrates the importance of considering all barriers facing a cluster or industry: "The biggest impediment to small livestock growth and development in New York State is the lack of regional, federally inspected processing plants."

At The Northeast Center we are currently working to identify agricultural and food industry clusters in the Northeast US. If you are interested in receiving a copy of "Agricultural and Food Industry Clusters in the Northeast US: Technical Report," please call (814) 863-4656 or send an e-mail to sgoetz@psu.edu.

Stephan J. Goetz

USDA/ERS Report

New Patterns of Hispanic Settlement in Rural America, William Kandel and John Cromartie, Rural Development Research Report Number 99, May 2004.

<http://www.ers.usda.gov/publications/rdr99>

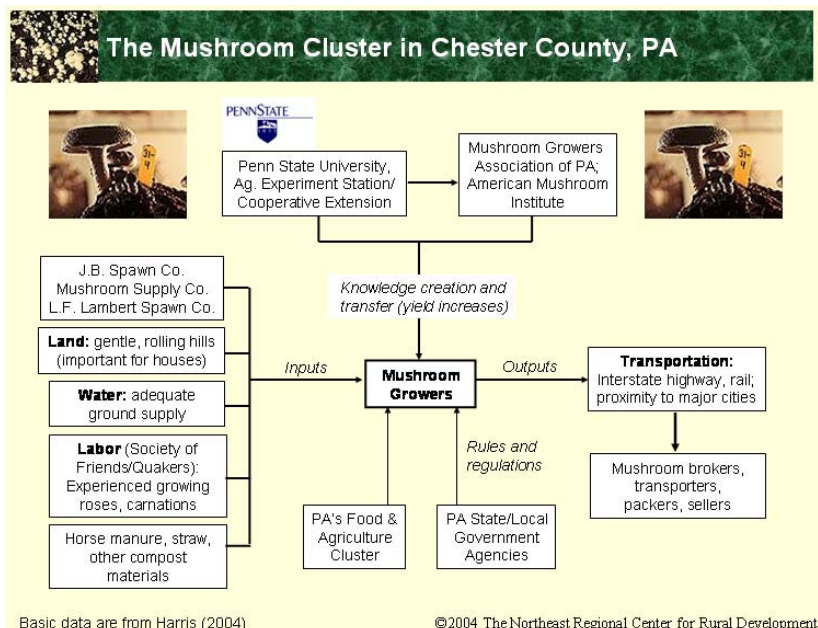
NACDEP 2005

The inaugural conference of the National Association of Community Development Extension Professionals **Building Our Future Together** will be held in Las Vegas, NV, February 15-18, 2005. Registration information, as well as details about becoming a member of NACDEP, can be found at:

<http://www.nacdep.net>



The Change Agent States for Diversity (CASD) Consortium is holding the National Land Grant Diversity Conference in Greensboro, North Carolina, April 27-29, 2005. The theme of the conference is **Creating a Climate for Change: Strategies in the Land Grant System to Lead a Diverse America**. CASD is hosting this forum for sharing evidence-based knowledge of successful strategies for impacting organizational change needed to meet the challenging issues of an increasingly diverse society in all sectors, including rural communities. For more information visit <http://www.casd.cornell.edu/>



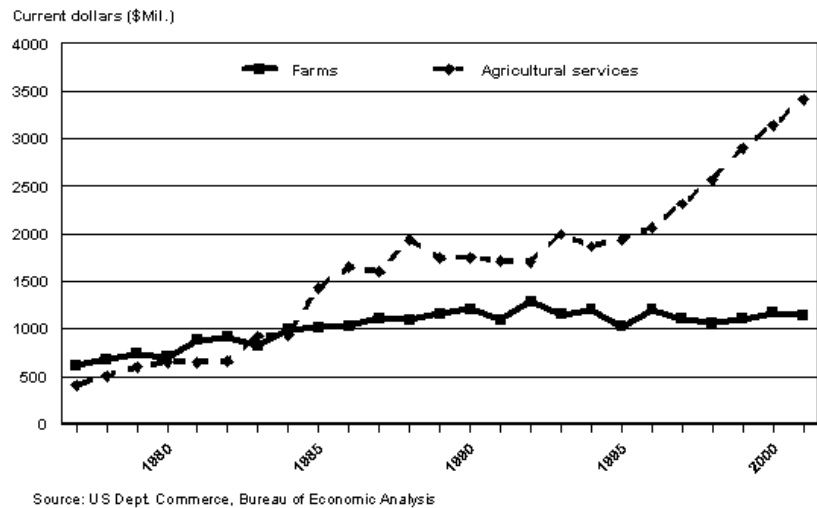
Excerpt from RDP No. 24, Nelson Bills, 2004: Food, Agriculture, and the Emergent Service Economy: Challenges for the Northeast Region

Discussions of agricultural economic development and prospects for greater farm and food vibrancy in the densely populated and urbanized Northeast often narrowly focus on commodity production. Over time, this fixation on commodities, combined with conventions followed by Federal data providers, has masked some important changes in the fundamentals of the region's farm, agricultural service, and food industries. Businesses operating in these sectors are adopting new business models and arrangements, some of which blur the traditional lines between farm/nonfarm and food/nonfood enterprises. Even when business arrangements, business structures and marketing channels are well identified and understood, new or just-emerging products or services may test the imagery we all use to assign our own meaning to the terms 'farm' and 'food'.

Any useful construct of the food system must be anchored by commodity production on farms. Federal farm statistics count farms as places with production of commodities having a market value of \$1,000 or more per year. This definition, on the one hand, is highly inclusive because it extends to operations that generate very few net cash receipts for the farm operator in any given year. On the other hand, the definition is increasingly at odds with the facts on the ground in the Northeast, where farming and the working landscape are not always synonymous with commodity production.

This RDP addresses some of these issues. The focus is on trends in industries traditionally defined as agricultural services. The region's equine sector is used to exemplify some of the confusion surrounding the production of non-commodity agricultural goods and services. For the

Value added originating on farms and in agricultural services, New England states, 1977-2001



Northeast, ignoring services produced on equine farms leads to a disconnect between our quantitative assessment of farm and food production on the one hand and patterns of land cover/land use on the other.

Data from the US Department of Commerce's Bureau of Economic Analysis (BEA) highlight dramatic increases in value added for agricultural services in the US, especially in the last decade. For every dollar of value added in commodity production, \$0.75 in value added originates in agricultural services. An even more striking picture emerges in the Northeastern states. Value added originating in agricultural services in New England surpassed that generated in commodity agriculture in the early 1980s (see figure above). Following very steep increases since 1995, agricultural services now account for approximately 2.5 times the amount of value added in production agriculture in the 6-state New England Region. Similar trends are evident in the Mideastern states, defined by BEA to include Delaware, New Jersey, New York, and Pennsylvania, with value added originating in services surpassing the amount originating in commodity agriculture in the early 1990s.

Another issue is that of how agricultural services are captured in the new North American Industrial Classification System (NAICS). This system replaces standard industry classifications used without modification for more than a third of a century (SIC codes). Agricultural services that have been summarily removed from agriculture within the NAICS are shown in the adjacent table. The impact on income and employment generated in the region's farm and food sectors cannot be overstated, as is illustrated in the RDP.

Eliminated from agricultural services by the newly implemented NAICS classification

- Veterinary Services for Livestock (pt.)
- Veterinary Services for Animal Specialties (pt.)
- Custom Slaughtering
- Custom Grain Grinding
- Pet Care Services
- Horticulture Consulting
- Landscape Architectural Services
- Lawn and Garden Services
- Ornamental Shrub and Tree Services

In summary, conflicting and piecemeal evidence on the structure of the Northeast food and farm sector is causing more and more confusion in both academic and lay communities.

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The Northeast Center is one of four regional rural development centers in the nation that focus specifically on rural challenges and opportunities. The Northeast Center provides support to the experiment stations and extension services of sixteen land-grant institutions in twelve northeastern states and the District of Columbia. The Center receives core funds from USDA/CSREES and the Northeastern Regional Association of State Agricultural Experiment Station Directors.

Announcement, Publication

New Board Members

We are pleased to announce that the following individuals have joined our Board of Directors:

Dr. Helene R. Dillard, Director, Cornell Cooperative Extension and Associate Dean, Colleges of Agriculture & Life Sciences and Human Ecology, Cornell University.

Dr. Nancy K. Franz, Associate Director, University of New Hampshire Cooperative Extension.

Dr. Thomas A. Fretz, Executive Director, Northeastern Regional Association of State Agricultural Experiment Station Directors (NERA), University of MD – College Park. (Appointed fall 2003.)

Mr. John C. Martin, Delaware CARET Delegate.

Dr. Stephen D. Reiling, Associate Director, Maine Agricultural and Forest Experiment Station, University of Maine.

Dr. Stephen Smith, Department Head, Agricultural Economics and Rural Sociology, the Pennsylvania State University.

RDP No. 24 Excerpts...

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Some Federal statistics can be readily used to marginalize the emergence of services as a component of the larger farm and food picture. Others offer tantalizing glimpses of changes in the industry that conform to on-the-ground observations and the anecdotal evidence on how farm and food pursuits really do thread through rural communities in the Northeast. In either case, this means that the educational community must redouble efforts to fashion incisive descriptions of the structural changes and interpret their meaning for state and local policymakers. The information presented in this RDP suggests that the region's food and agriculture system is not always well served by current Federal data conventions. Some sort of dialogue about data needs and data management could be a useful exchange for educators as well.