ENTREPRENEURSHIP, SANCTIONS, AND LABOR CONTRACTING: DISCUSSION

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Agricultural economists have a penchant for comparing *ex ante* and *ex post* analyses of changes which impact various agricultural sectors. This is particularly the case with respect to legislative and policy changes which undergo protracted periods of fervent debate. The case in point is immigration reform and its impact upon agricultural labor. Debate proceeded for several years preceding passage of the Immigration Reform and Control Act of 1986 (IRCA), often pitting agribusinesses, producers, politicians, and farmworker groups against one another and frequently having the rather bizarre effect of creating previously unheard of alliances among old rivals. It was largely through these efforts that agriculture was given special dispensation to comply with IRCA provisions in varying degrees and over varying time frames compared to the rest of society. Pundits from every group predicted the impacts of IRCA, specifically on agriculture.

The jury is "still out" regarding the actual effects of IRCA on agriculture. The law, which was designed to curb illegal immigration and limit employment of non-qualifying alien workers, has yet to be thoroughly analyzed in terms of its efficiency in achieving its purposes. According to a recent Associated Press Release, the flow of illegal immigrants into the U.S. from the Latin countries has not substantially decreased; in fact, predictions for illegal immigration apprehensions in 1990 exceeded those in previous post-IRCA years by some ten percent. The widely publicized agricultural labor shortage has not developed. These occurrences may well be inextricably linked. The market through which agricultural labor is recruited, hired, and distributed has adjusted to the disruptions imposed upon it through policy alterations.

Although many varied factors are currently impacting the agricultural labor market, the primary focus of the Polopolus and Emerson paper was on entrepreneurship, sanctions, and labor contracting practice and principle since the enactment of IRCA. The authors predicate their analysis and discussion on two primary hypotheses. Paraphrased, they are: (1) Entrepreneurs of labor intensive agricultural enterprises will alter their business organizations to avoid imposition of sanctions upon themselves by utilizing contract labor and (2) The practice of labor contracting will intensify with low levels of sanction enforcement. In essence, Polopolus and Emerson are stating the case for an increasing presence of farm labor contractors in the agricultural labor arena. Before examining this assertion relative to entrepreneurship, sanctions and contracts, it is useful to become more familiar with the current state of agricultural labor with respect to IRCA. After having summarized this situation, discussion will proceed by topical area as presented by Polopolus and Emerson.

CURRENT STATUS OF AGRICULTURAL LABOR

Congressional directives require that the Commission on Agriculture Workers (CAW) monitor the impacts of IRCA on agricultural labor from nine perspectives, including supply, wages, working conditions, and unique needs assessments. USDA and DOL were charged with determining whether labor shortages resulted from the passage of IRCA. Two separate surveys, the *Quarterly Agricultural Labor Survey* and the *National Agricultural Workers Survey*, indicated no shortage of labor existed. In fact, an actual increase occurred in the number of Seasonal Agricultural Workers approved by governmental agencies (*Rural California Report*). Shortages which were anticipated on a widespread basis did not materialize except in traditionally labor-short areas. As a result, USDA-DOL determined that no additional agricultural workers were needed in the U.S. and did not issue visas for Replenishment Agricultural Workers (RAWs).

Duffield recently completed an estimation of farm labor elasticities in the 1984 to 1988 period and found an elastic relationship between demand for hired labor and a change in real wage rates. He posits that if IRCA successfully restricts labor supply, real wages may not rise significantly as employers move to labor-saving devices. It seems plausible, then, that if IRCA fails to restrict labor supply, real wages will

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at best remain the same or likely decrease, particularly if illegals continue to contribute to the labor pool. Indeed, a temporary labor glut may occur in select geographic areas as low-skill workers move in to the agricultural labor supply pool and retrain to move out of agriculture, simultaneous with a growing immigrant base. Actual wages have declined in California, the largest employer of hired agricultural labor, by ten percent since 1980. It is suggested that the decline is due to increased labor supply relative to demand (*Rural California Report*). Such is not the case nationwide, as interim shortages of seasonal labor continue to occur in several areas. Apparently, distribution and not quantity is the problematic force impacting on labor. The Commission on Agricultural Workers is presently conducting hearings in selected areas across the U.S. (Texas, California, the Midwest, the Atlantic Coast, Florida, and the Pacific Northwest) for the purpose of providing input to the Congress in altering IRCA if needed.

ENTREPRENEURSHIP

In light of the lack of labor shortages, Polopolus and Emerson assume that the entrepreneurial spirit of agribusiness has adjusted to policy changes brought by IRCA. The primary consideration is their motivation for profit and their desire to shift the responsibility for routine, repetitive farm labor tasks to someone outside the agribusiness firm. Two extreme possibilities are proposed—that firms may vertically integrate to include all activities of production or that separate firms will exist for each activity of production. In reality most firms operate somewhere in between these two extremes. Determinants as to which course is taken include the transaction costs of recruitment and employment of labor and the principle agent status of the employer. Polopolus and Emerson point out that larger firms have a greater opportunity to spread the information costs associated with hiring workers and, therefore, may not choose to utilize labor contractors. Small firms will likely choose an opposing course of action.

These observations are, to a large degree, accurate representations of what actually occurs. However, certain divergences from this general pattern are not uncommon. Indeed, the tendency to over-simplify or over-generalize such entrepreneurial activity as described must be carefully guarded against. The extent to which agribusinesses participate in entrepreneurship to address their agricultural labor decisions will likely rest on several primary factors, including, but not limited to: (1) whether the area is in a labor deficit or labor surplus situation; (2) to what degree the labor force is migrant or resident; (3) the size of the firm and its management objectives; and (4) the nature of a firm's particular agricultural activity.

Areas where hired agricultural labor is in tight supply will understandably see greater entrepreneurial activity. The decision to pursue labor contracting in such areas may well be driven by recruitment or search costs (cost of information) such that producers or agribusinesses choose to defray these costs by "subcontracting" to farm labor contractors (FLCs). Similarly, FLCs have the opportunity to market their recruitment skills so as to extract greater profits. To the agribusiness, the marginal value product of the FLCs' recruiting exceeds the opportunity cost of their own recruiting process. Labor surplus areas behave contrariwise to this; entrepreneurial activity may not emerge due to a lower opportunity cost of worker recruitment by the firm and/or a lower marginal value product of the recruitment function by FLCs.

Firm behavior will also differ based upon the residence status of the workforce. FLCs play a greater role in areas lacking an indigenous or resident labor supply. A primary reason follows the logic of Polopolus and Emerson in that the value of the recruitment function is greater when the labor pool is transient in nature and/or employed for short periods of time. The proportion of labor hired for intensive activities should increase in the Midwest, the Pacific Northwest, and the Northeast because the workers are primarily migrant in nature. California may exhibit similar tendencies.

Both the size of the firm and the nature of the agricultural activity effect the use of FLCs. Polopolus and Emerson point out that larger firms may use FLCs less than smaller ones due to the larger firms' ability to lower the costs of recruitment. However,there are numerous reasons for the considerable use of FLCs by large firms; among these reasons are risks of sanction enforcement and a shift in costs for various worker benefits mandated by state and federal regulations. Type of agricultural activity and the nature of the commodity must also be considered when assessing the occurrence and nature of entrepreneurial activity in agriculture. FLCs are anticipated to be more widely used in those labor-intensive agricultural activities classified as "perishable" by IRCA (horticultural specialties, fruits and vegetables, grains). Counter to this, individual agribusinesses are likely to take up entrepreneurial activities in "non-perishable" activities such as livestock, dairy, poultry, and forestry.

Certainly entrepreneurial behavior is not the sole property of agribusinessmen; FLCs are seizing opportunities to provide their services. As mentioned

Tablel 1. Employing Units and Numbers of Employees, Field, Harvest and Packing Labor in Texas Agriculture, by Quarter, 1986 and 1989*

Quarter	Farm Labor Contractors		Fruit and Veg. Firms		All Texas Agriculture	
	Units	Employees	Units	Employees	Units	Employees
1/86	181	3647	448	15279	4330	49919
1/89	366	7924	528	17592	6736	61107
2/86	196	5141	471	15537	4831	53559
2/89	360	10554	541	20301	6769	68278
3/86	213	2662	480	11234	5157	50900
3/89	362	3939	553	11214	6875	58000
4/86	227	3496	485	14786	5284	53506
4/89	376	5601	548	15879	7093	64092

*Reporting units and numbers of employees are for those covered by unemployment insurance. Select sectors of agriculture shown.
Source: Texas Employment Commission. Undisclosed data.

in the cited case study in Florida citrus, certain of the FLCs are increasing the scope and nature of their services beyond recruitment to include hauling, packing, and delivery of products to packers and processors. However, the information function is still their primary opportunity for exploitation. Knowledge of availability, location and skills of potential workers, as well as the command of culture and language, positions progressive and enterprising FLCs advantageously.

That FLCs are increasing in frequency and importance in Texas agriculture is indicated by examination of Texas Employment Commission data for the years 1986-1989. These data, taken from the reporting units of unemployment insurance records, span the period from before IRCA to beyond the last extension of agricultural compliance to IRCA. Quarterly data indicate that the increase in both reporting units and in number of employees accounted for by FLCs exceeds increases by fruit and vegetable firms and agriculture as a whole (Table 1). Importantly, the number of agricultural employees hired by FLCs increased 48 percent in the third quarter from 1986-1989, compared with no increase in fruit and vegetable firm hirings, and a 14 percent increase in agriculture as a whole. First quarter increases were much larger (117 percent for FLCs vs. 15 percent and 22 percent, respectively, for fruit and vegetable firms and all agricultural firms, Table 2). Relative shares of laborers in agriculture have increased to 13 and 15 percent in the first and second quarters of 1989 (up from 7 and 10 percent in 1986). The percentage for fruit and vegetable firms has remained at 29 percent for both quarters across this time period (Table 3).

Such results lend strong support for the hypotheses posed by Polopolus and Emerson. Additional support is contributed by data from California regarding the rise of FLCs in the period 1984-1988 (Martin and Miller). In general, the percentage of labor and payroll attributable to FLCs has increased, although variations have occurred with respect to geographic and crop activity distribution. They find evidence of a two-tiered farm labor market, where direct hiring is being concentrated on fewer and larger farms, and FLCs hirings are more frequent and more fragmented among small and medium-size operations.

SANCTIONS

Polopolus and Emerson maintain that the presence of employer sanctions acts as a sufficient source of risk to decreasing profit such that agribusinesses will alter their structures to increase the use of FLCs. In this view, the FLC assumes the risk associated with employment of illegal workers. An alternate proposition is the evolution of separable firms to handle the labor function. Lax enforcement of employer sanctions should lead to even greater use of FLCs.

The potential effectiveness of sanctions rests with the threat of enforcement which will carry costly penalties for each illegal worker identified. In an economic sense, the risk of enforcement has a monetary value attached at each probability level anticipated. The reality of enforcement has been less than threatening, however, as anticipated in a 1987 Dallas Federal Reserve Bank publication. Hill and Pearce estimated the concentration of illegals within agriculture and non-agricultural industries. They hypothesized that sanction enforcement in agriculture would indeed be small due to the concentration of illegal immigrants in certain industries, such as textiles and apparels, leather and footwear, certain food manufacturers, and miscellaneous light manufactur-

Tablel 2. Percentage Change in Employing Units and Numbers of Employees, Field, Harvest and Packing Labor in Texas Agriculture, by Quarter, 1986 to 1989*

Quarter	Farm Labor Contractors		Fruit and Veg. Firms		All Texas Agriculture	
	Units	Employees	Units	Employees	Units	Employees
1	+102.2	+117.3	+17.8	+15.1	+55.6	+22.4
2	+83.7	+105.3	+14.9	+30.7	+40.1	+27.5
3	+70.0	+48.0	+15.2	0	+33.3	+13.9
4	+65.6	+60.2	+13.0	+7.4	+34.2	+19.8

*Reporting units and numbers of employees are for those covered by unemployment insurance. Select sectors of agriculture shown.
Source: Texas Employment Commission. Undisclosed data.

ing. Additionally, select geographic areas with high concentrations of illegals are likely to be targeted due to lack of INS personnel for apprehension and prosecution.

It appears as though the threat of effective enforcement is less potent than one might anticipate, particularly for employers of large numbers of low-skilled agricultural laborers. Large firms may well feel more compulsion to comply with laws and regulations based upon experience in other non-sanction-related areas such as wage and hour standards, workmen's compensation, unemployment insurance, and workplace safety requirements. Understandably then, the California experience of FLCs being used primarily by small and medium-sized firms has evolved. Regardless of the lower actual level of risk involved and the potential lowering of employers' profits due to sanctions, it remains true that the cost of hiring agricultural workers has increased since IRCA was enacted in 1986.

What effect, if any, have sanctions had upon the presence and growth of farm labor unions? If sanctions were effective in controlling use of illegal labor, one might argue that supply had contracted and a greater opportunity for organization and negotiation would be present. A recent article by Mancur Olson lends support to this conclusion, citing collective action and exploitation in agriculture and rural economies which often result from constricted supply. Alternatively, it could be argued that fewer workers would mean increased competition among employers, leading to higher wages and better benefits. In practice, FLCs have long been used in California as a method of circumventing unions. The importance of union activity is lessening in agriculture overall, but effects are being felt in select, concentrated industries, for example, the mushroom and dairy industries, and in certain geographic regions *(Rural California Report)*. Wage premiums still exist for traditional areas of union activity, but are more pronounced on a selective basis. Today, only 12,400 workers are covered by unions in California, a sharp decrease from the early 1980s (Martin and Abele).

No significant activity is present in Texas; in fact, not one job as of January, 1991, was covered by union contract in Texas, according to recent testimony at the Commission on Agricultural Workers hearings in Weslaco, Texas. Union activity, vis-a-vis large, vertically-integrated companies, continues to be strong in areas geographically distant from a plentiful low-skilled labor supply. The Midwest vegetable industry is a prime example. Union activity will likely increase in areas distant from adequate labor supply and decrease in areas of adequate labor supply. This will particularly be the case in face of the apparent inability of sanction enforcement to limit illegal labor in agriculture and the increase in

Table 3. Percentage of All Texas Agricultural Employers, Field, Harvest, and Packing, Employed by Farm Labor Contractors and Fruit and Vegetable Firms, by Quarter 1986 and 1989

Quarter	Farm Labor Contractors	Fruit and Vegetable Firms
1/86	7.3	30.6
1/89	13.0	28.8
2/86	9.6	29.0
2/89	15.4	29.7
3/86	5.2	22.1
3/89	6.8	19.3
4/86	6.5	27.6
4/89	8.7	24.8

*Reporting units and numbers of employees for those covered by unemployment insurance. Select sectors of agriculture shown.

Source: Texas Employment Commission. Undisclosed data.

available legalized labor which resulted from IRCA implementation.

LABOR CONTRACTING

Farm labor contractors are largely involved in the recruitment of labor and the coordination of labor supply and demand. FLCs pose comparative advantages with such low-skilled, repetitive task laborers. The Florida case study reveals that certain FLCs are extracting higher labor payments based upon extra services provided, such as harvest hauling. Study results indicate that all FLCs provide the requisite fringe benefits. Many employers of FLCs appear to be transferring management and overhead costs of fringe benefits by including these items in the labor contracts. It is, in effect, a method of cutting costs on both, recruitment and overhead. Additionally, liability for violation of laws and regulations is transferred to FLCs. Thus, this practice is gaining widespread adoption, particularly in California, Florida, and Texas.

Counter to this trend, some large employers in Texas are choosing to hire so-called "company crews" so that all control for compliance rests with the firm. Shippers and packers responsible for harvesting fall in this category. The reason for this apparently contradictory logic lies in what employers believe to be inconsistent determination of financial liability in court cases, dependent upon the specific regulatory agent involved. If the firm is indeed held ultimately liable for violation, regardless of FLC contracts, then these same firms reason that they should be in charge of all facets of regulatory compliance. Until such inconsistency is rectified, there is likely to be a bi-modal pattern of FLC use, particularly in Texas.

CONCLUDING REMARKS

Trends in the use of farm labor contractors seem to be toward greater use of FLCs, especially for small or middle-sized agricultural operators in labor-intensive production. While IRCA seems to have had an encouraging effect on these trends, it has not been the major driver of them. More pertinent in their development has been the desire to lower costs of recruitment and overhead by transferring responsibilities to FLCs. The supply neither of legal nor of illegal laborers appears to have diminished, suggesting that in agriculture, at least, there has been little significant overall change in availability of labor. Large-scale movement out of the legal labor pool by SAW workers to non-agricultural jobs has not been evident, due, most probably, to the low educational level of many recent immigrants.

Hired agricultural labor is viewed by many as a pawn in the economic system. While wages and benefits are improving for farm laborers, the comparative quality of life remains lower for them than for participants in many other labor market segments. It is interesting to observe that while provision was made to ensure adequate labor for agriculture through SAW and RAW workers, no provision for retraining or educational upgrading of these workers was included in IRCA or in subsequent legislation or regulatory rulings.

Farm labor contractors must continue to offer an economic advantage if they are to flourish in the long term. Agribusinesses and FLCs will continue to utilize entrepreneurial behavior to cut costs and maintain a competitive position for agriculture to the extent it is possible. It is unclear what recommendations CAW will make to Congress for revision and updating of the agricultural provisions in IRCA. What is clear, is that for agribusiness producers and farm labor contractors, the changing economic and regulatory environment will continue to provide entrepreneurial opportunities for progressive persons choosing to capitalize on them.

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