

## Small and Underserved Farmers

### Introduction

America's small and underserved farmers have received increased attention in recent years. Former U.S. Secretary of Agriculture, Dan Glickman, appointed a commission to examine the unique problems of small farms and charged the group to "look at ways small farms could compete in a large economy." The Small Farm Commission conducted several hearings around the country and examined issues facing small farms and what could be done to improve their outlook for the future. The Commission issued its findings in the 1998 report, *A Time to Act*, which outlined several actions that could be taken to help small farmers.

The move to help small farmers is not without its critics and detractors. Some say that the demise of the small farm is part of a natural economic progression and that anxiety over the fate of small farms is misplaced. Others argue that because the small farms represent such a tiny fraction of the total U.S. output, it is not the role of the U.S. Department of Agriculture to be concerned with them. Finally, there are those who say that the small farms are merely hobby farms and should not receive any special attention.

It is true that the small farms, as measured by sales volume, represent only a fraction of the total value of U.S. production. According to the 1997 Census of Agriculture, farms with sales over \$250,000 represented only 8.2 percent of the farms and yet accounted for 72.1 percent of sales. Farms with sales between \$20,000 and \$250,000 represented 30.3 percent of the farms and 24.9 percent of sales. The remaining farms with sales of less than \$20,000 made up 61.5 percent of the total, yet they garnered only 3 percent of the sales.

The \$250,000 sales cutoff for being classed as a small farm is the definition chosen by the Small Farm Commission. It should be noted that dividing farms based on sales means the groups with greater dollar volume will, by definition, have the majority of sales. Such divisions, however, overlook several important points in a discussion of small farms.

The salient point is how "a farm" is defined. Currently any operation that sells, or would normally sell, just \$1,000 worth of agricultural products is considered a farm. The 1997 Census revealed that 14 percent of U.S.

'farms' had sales less than \$1,000. These were classified as farms because they had an inventory worth at least \$1,000. Such farms could have had 5 cows or 10 pigs and still made the cutoff. These are the size of a good 4-H project. The Census showed that 26 percent of all U.S. farmers recorded sales less than \$2,500. It will be hard to deal with the issue of small farms until we employ a more realistic definition of what constitutes a farm.

In addition to the problems of definition, simply looking at sales raises other issues. Small farms (those with sales of less than \$250,000) occupy 66 percent of the farmland in the United States. Because they control such a large proportion of the land, programs geared towards wise land use must be developed specifically for small farms.

Another important characteristic of small farmers is that, on a percentage basis, they are as likely, to live on their farms as the large farmers. With so many farms and farm families falling into this category, the fate of the nation's rural communities is directly tied to the future of small farms.

Volume of sales is a measure for comparing the relative worth of small farms to the national economy. However, this measure fails to account for many other attributes of small farms.

Throughout most of the 20<sup>th</sup> century, U.S. policy has been geared toward increasing labor efficiency in agriculture. Several presidential commissions and other studies have reached the general conclusion that too many resources (especially human) were devoted to agriculture and that the country should pursue policies to increase labor efficiency and output as a means of increasing profitability. The result was to move people off the farm and into other endeavors. Research, technological support, and even direct government payments all have been geared toward offering more help to the larger farms.

Our policies have tended to favor commodities rather than people. As an example, the Environmental Working Group released a study of USDA payment records for 1996 to 1998. The study results, released in April 2000, showed that the top 7 percent of the payment recipients received 51 percent of the payments. Overall the top 10 percent received 61 percent of the payments. The remaining 90 percent of the recipients received only 39

percent of the total payments. The top half of the recipients averaged over \$115,176 per farm, while the bottom 90 percent averaged just under \$7,000.

At the close of the 20<sup>th</sup> Century and the dawn of the 21<sup>st</sup> Century, changes are occurring in the attitude toward small farms. There is an increasing recognition that small farms contribute to the vitality of rural communities, they have a significant influence on the use of our land resource base, and they have a key role to play in assuring our food security.

This paper presents proposals related to small farms that should be addressed in formulating the 2002 Farm Bill. We have arrived at the current situation where the middle and small-sized family farms are disappearing through a series of choices. These choices were made in different times and with a different set of objectives. We have the capability to shape agriculture in the U.S. through policy decisions. The future of small and underserved farms is not inevitable it is a policy choice.

## **Identification**

Any legislation addressing small and underserved farms must clearly define a farm and who would fit into the small and underserved categories. This is a major difficulty in dealing fairly with small and underserved farms. Critics often say that small farms are inefficient and their demise is due to economic forces. Others say taxpayer monies should not be used to support someone's lifestyle choice. However, these problems arise because we continue to use an antiquated definition of a farm.

Research using data from the Iowa Farm Business Association shows there are initial economies of size, but they dissipate sooner than often assumed. They also begin dissipating levels that would not be considered a farm under more realistic definitions. For example, using the Farm Business data for corn and soybean row crop production the majority of economies of size are captured after 100 acres. The gross sales from 100 acres would be less than \$50,000.

It should be recognized that the economies of size and the range of production they affect depend greatly on the commodity in question. Most agricultural products exhibit what is called an L shaped average cost curve. Using current technologies and practices the efficient point, in terms of costs of production, is achieved at a level that does not allow a living. Farms get

bigger for the income not the efficiency. It is also worth noting that many of the so-called economies of size exist because the farm does not have to absorb the external costs associated with production.

The USDA Economic Research Service (ERS) offers a definition of small farms . Their classification starts with the Small Farms Commission definition of yearly sales of less than \$250,000 and delineates these farms into five categories.

One set of small farms identified by the ERS is the limited-resource farms that includes any farm with sales less than \$100,000, farm assets less than \$150,000 and total operator household income less than \$20,000. These limited-resource farmers may report farming, a non-farm occupation, or retirement as their major occupation. By definition, these farms are poor and their operators probably have lower education levels with minimal training.

Another set of small farms is classified as residential/lifestyle farms, operated by individuals who report a major occupation other than farming. This group does not include farms possessing the additional restrictions required to be classified as limited-resource. Many who criticize small farm assistance programs assume that these farms make up a majority of small farms. As noted, a change in the definition of what constitutes a farm would eliminate many of these farms from consideration.

The third set of small farms classified by the ERS includes so-called retirement farms. These are the farms where the operators report that they are retired, yet they do not meet the additional restrictions of the limited-resource farms. The data available do not reveal whether these people are retired from farming or another occupation.

A 2000 study at Iowa State University found that 40 percent of the farmers only intended to semi-retire, an indication that they would neither retire completely nor continue to farm indefinitely. These semi-retired farmers would be numbered among the retirement farms. These farms indicate they expect to receive a third of their retirement income from the farm.

The final two categories of farms are those that report farming as their major occupation, but are further divided based on their level of sales. Farming occupation/ low sales would be those with sales less than \$100,000. Farming occupation/high sales would be those with sales between \$100,000 and \$250,000.

Other categories of small and underserved farmers are not addressed in the ERS definitions. One of these groups would be farms with sales of less than \$250,000 that list something other than farming as their principal occupation. Young or beginning farmers who aspire to become full-time farmers at a later time operate many of these farms. Some may classify these as the residential/lifestyle farms, but they are farming for a different reason most of the time and hence would view farming in a distinct way.

An additional issue with small farms, not captured in the census data, concerns multiple family farms. In many cases these may be a parent and offspring farming together. The offspring would also have some sales on their own. This situation would be classified as two farms, one large and one small. However, in reality this would only be one farm. A 1997 study in Iowa shows that 26 percent of all farms would be considered multiple family and 35 percent of farms with sales over \$250,000 would be multiple family.

There are two other groups that may not be considered farmers by the sales figure definition, but they control significant agricultural assets, especially farmland. A group that is greatly underserved is the farm widows. These are typically older women who may or may not be familiar with modern farming techniques. They often rent their land, but do so without a firm understanding of the options, alternatives, and programs available.

A second underserved group is the farm heirs. These are most often absentee landowners who have left the farm many years earlier. They want to maintain ownership of the farm, but they are not familiar with what can be done with their land, especially with respect to conservation options.

If legislators truly intend to help the small and underserved farms, it is critical that there be a clear understanding of who will benefit from that help. Due to inadequate definitions, many of the currently defined “small farms”

are not really farms at all, but just happen to be home to someone who has chosen to live on an acreage.

A clear definition of the group requiring assistance will ensure that those for whom the help is intended will be the ones actually receiving it. For some small farms, scale of operation is a major drawback to profitable production. Limited-resource farms also have special needs that can be addressed through sound, directed farm policy. Regardless of the intended recipients, programs without properly defined beneficiaries will be less likely to achieve their intended goals.

Assuming that the issues of definition have been clarified, there are three major activities that could be used to address the needs of small and underserved farms. There is some overlap in these areas, but making this distinction shows that there are many alternative approaches that could be employed.

## **Legislation**

Legislative actions encompass many possible areas. Special legislation is a tool that can be used to help the small and underserved farmer in a variety of ways.

The current design of federal farm programs supports big farms. The majority of government payments go to the large farms because the payments are based on production rather than some other criteria. It is conceivable that the payments could be based on mechanisms that would not penalize the small and underserved farms. The Conservation Security Act, which bases payments on using conservation measures, is one way to allow small farmers access to payments in relation to their contribution to some national goal. Another proposal would establish a minimum wage for farmers that varies depending upon the amount of labor used for their farming operation.

Tax policies are another area where lawmakers could aid small or underserved farms. For example, farms with some fixed cutoff in terms of total family income could have a certain amount of that income exempted from federal taxes. This would ensure that the help was given only to the targeted recipients. The tax benefits would end when the household income surpassed a certain amount or when the farm exceeded a certain size.

New tax policies could benefit those who help a small or underserved farm by offering lower rent, use of machinery, or some other accommodation. In exchange for this help, the person would receive a tax credit. This would aid existing farms and assist in transitioning farm ownership to members of the next generation who lack the wherewithal to enter agriculture.

Legislation can also be used to help small and underserved farmers find the credit they need at reasonable rates. It is important that these not be simple loan programs without additional oversight features. Current Farm Service Agency rules require financial management training. These programs should be assessed to determine their efficacy. In addition, there should be active oversight provisions added to assist the small and underserved farmers. Farmers often have the desire to buy land before acquiring many of the other capital items necessary for operating a successful farm. While it is understandable that land ownership is a goal and that owning one's own property ensures uninterrupted access to cropland, many studies have shown that the return to land is among the lowest of any agricultural assets. Farmers with scarce capital should put borrowed money into areas that will return the most value to their farming operation.

Existing programs designed to help small farmers are laudable, but too often they offer farmers very little oversight or advice. Capital is a necessary ingredient to a successful farming operation, but if that capital is misapplied or is available only through injudicious borrowing, it may not be possible to ever pay off the loan.

## **Research**

Research is another area where substantial changes can be made to benefit small and underserved farms. Currently, most research is being conducted without regard to its impact on different sizes of farms. A recent Iowa poll showed that farmers view large farms as the primary beneficiaries of ten new technologies being developed. When asked who would gain most from the latest scientific advances, the farmers listed large farms 29 percent of the time and agribusiness 21 percent of the time. Just 2 percent of the farmers saw small farms as the primary beneficiaries. The Iowa poll

questioned farmers and reported their opinions. Some have argued that this does not have validity. Although the poll is not a 'scientific' study it does reflect the perception of farmers with respect to the beneficiaries of the current research agenda.

Research does not necessarily have to benefit only small farms. It is possible to conduct research that benefits all farms. However, at the very least, government-funded research should not put small farms at a further disadvantage.

Research to aid small farms could take several forms. One form is to study the capital items necessary to produce agricultural commodities. Currently the research is almost entirely geared towards increasing the capital requirements in agriculture. Examining net farm income as a percent of gross farm income shows that the percentage has been continually decreasing. This means farms are having larger sales but that the net income has not kept pace. Farms are spending more for the increases in production but earning less. This is similar to Willard Cochran's technology treadmill.

The increasing technology costs include larger, high-cost equipment. Recent studies have shown that the cost of machinery is a significant factor in the difference between both small and large profitable farms and small profitable and unprofitable farms. Continued refinements in low-cost, smaller-scale machinery would provide small farms with more appropriate, low-cost options.

Another area where research would help small farms is development of new and alternative crops, as well as alternative uses for existing crops, such as biomass energy crops. The amount of funds spent on the development of different varieties, pest management practices, and fertility recommendations is almost nonexistent for alternative crops when compared to the amount being spent on existing crops. New crops can be developed that require less total inputs and thus would be of the most benefit to small, limited resource farmers.

Additional research is needed into the development of markets and market access for small farms. Some research exists, but this is not enough given the amount of solid information needed to help small farmers make sound marketing decisions.

Agriculture is experiencing a substantial consolidation, the bulk of which is detrimental to the small farmer. Research is needed into how these mega-mergers impact the price of food, small farmers, and the environment. Research is necessary to examine the effects of agricultural consolidations from a systems perspective, not from the more narrow view currently being used by the U.S. Department of Justice when examining antitrust cases.

Given the current trends in agriculture, there appears to be considerable movement toward large-scale, industrialized-type production. There also is a movement towards more localized, farmers market-type agriculture, fueled by the recent increase in community supported agriculture programs. These two types of systems now receiving attention represent the extreme ends of the farming spectrum. Research is sorely lacking for those who occupy the middle ground, namely a considerable number of small farms. These in-between farms are what usually have been considered “family farms” where most of the income comes from the farm and farming is considered the principal occupation. These are the farms where the family provides the majority of the labor and capital used in the farming operation. How these farms can fit into a more regionalized market needs further investigation. Meat packers, lockers, distribution, production, and other factors are all areas needing further investigation.

Research is also needed into the most appropriate way to reach the limited-resource farms and the underserved. There are a variety of ways that can be employed but some will be more cost effective than others.

The U.S. Department of Agriculture and the individual states spend large sums on agricultural research. How these monies are spent has and will have an impact on which farms benefit the most. Larger farms have been perceived as the primary beneficiaries. Developing more appropriate technologies and researching issues affecting small-sized farms will greatly enhance their prospects for the future.

Where we are today with respect to the current agricultural situation is the result of conscience decisions. Where we will be in the future will also be the result of conscience decisions. Future direction is not inevitable because the research questions we choose to address and the technologies we choose to develop shape the future.

## **Education**

Education is another area where special programs could be developed to assist the small or underserved farmers. Currently there are programs being offered, but these need more attention and resources committed to them.

One way to augment the educational efforts would be to clearly segregate the intended audiences. This would reflect the setting of new priorities and it would help to determine the appropriate educational responses and needs of the target audiences. For example, limited resource farmers will have different needs than widowed landowners. Specifically targeting the audiences will improve the educational experience.

Method of delivery is one of the considerations that should be addressed in meeting small and underserved farmers' education needs. The new farm bill should provide adequate funding to help educators offer a variety of delivery methods. Small farmers are more likely to have off-farm employment and are less likely to be available for a traditional meeting held during the day. There need to be more offerings on weekends and at times when these audiences are most likely to be available. Additionally, alternative methods for advertising and promoting programs must be utilized.

Delivery methods also must include nontraditional methods such as web-based programming, videos, and so forth. There needs to be adequate funding to ensure that these programs can be developed and disseminated.

## **Concluding Comments**

Small farms make up the majority of U.S. farming operations. Much of the criticism that these farms are merely hobby farms could be allayed if the definition of a farm was changed. Similarly, if one adopts the goals of creating healthy rural communities, protecting the natural resource base (small farmers control the bulk of U.S. farmland), and guaranteeing food security (ensuring that food production is not concentrated in too few hands), then programs and special assistance for small farms are justified.

Besides having a more realistic definition of what constitutes a farm, it is important to recognize that there are several different types of small and

underserved farms. Each category has unique attributes and special problems. If we carefully gear programs to selected groups, we will be more likely to achieve the desired outcome.

In many instances, what small farms need are not new programs, but adequate funding for the programs now in place. The small and underserved farmers of the United States need to know that there is a real desire to work with them and serve them, and not a deliberate attempt to exclude them or class them as mere curiosities in a modern age.

The 20<sup>th</sup> Century was marked by the drive to increase agricultural output, increase labor efficiency and move people off the farm so they could be employed in other occupations. We are finally realizing that the small farm occupies a unique niche in the American landscape and deserves special attention. Even if one doesn't feel that the small farms deserve special consideration, government policies, research, and legislation should not penalize them. Our guiding principal should be; 'at the very least, do no harm.'