POLICY ALTERNATIVES TO REDUCE BARRIERS AFFECTING ACCESS TO RESOURCES FOR OWNERS OF SMALL FARMS IN RURAL AREAS

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Increasing agricultural income on small farms is a reasonable policy goal, and it is in the best interest of the nation. Rationale for assisting small farmers is partly based on equity, or humanitarian grounds, and partly on efficiency, or economic grounds [6, p. 887].

Frederick S. Humphries

. . . (W)e submit that if a diverse farm sector is to be maintained it is important that policies recognize problems peculiar to specific groups of farms and address those problems directly. The "broadside program" approach, perhaps more appropriate in the past, is doing more to concentrate production than to protect the farm sector (14, p. 143).

A Time to Choose

Defining Small Farms

Carlin and Crecink argue that a definition of small farm "should have an understood underlying conceptual basis" [2, p. 933], and they identify two concepts.

The first is that a small farm is a business having a volume of sales deemed small, i.e, one that has annual gross sales not exceeding $20,000. This concept is held by persons concerned with such issues as the growing concentration of agricultural production (and marketing), an

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increasing dependence on capital intensive technology, the expanding use of production practices considered harmful, and an increasing concentration of land ownership.

The other concept defines small farms as those where the farm operator and the farm family have a low level of economic well-being as measured by income. This is reflected by the United States Department of Agriculture (USDA) definition of small farms that includes all farm families (a) whose family net income from all (farm and nonfarm) sources is below the median nonmetropolitan income of the state, (b) who depend on farming for a significant portion, though not necessarily a majority, of their income, and (c) whose family members provide most of the labor and management [12]. Persons who hold this concept generally are more concerned about issues of small, limited-resource farms and the effects of poverty on the farm family, community, and society.

We consider these concepts useful, but we find that both inadequately classify farms for the purpose of discussing policy issues. We propose an alternative.

Small Farm Situation

Within the last 50 years agriculture in the United States made a revolutionary transformation. This enabled some owners of farms to prosper but many owners were left behind with limited-resource farms, when evaluated on the basis of (1) acreage in the farm, quality of land, or access to capital, (2) ability to access off-farm employment, or (3) annual gross sales. This effect was felt by farmers in all regions of the United States without regard to race [6, p. 880].

The censuses of agriculture taken in 1978 and 1982 reported an increase in the number of small farms. This was reflected by increases in the number of such farms with aged operators and part-time operators, and by either stability or decline in the number of small farms with full-time operators. Given the dominance of part-time small-farm operators this change shows that the urban-industrial process has extended to many rural communities [13, p. 1038].

Small farms are located throughout the nation, but concentrated in the North Central and the South. Blacks own very few farms in regions outside the South, and farm ownership by blacks is rapidly declining there. Farms owned by blacks declined by 82 percent between 1959 and 1974, dropping to 47,000 in 1974. Of these, 92 percent reported annual gross sales of farm products of less than $20,000 [9, p. 13]. Between 1978 and 1982 farms declined in the South to 585,007. Over the same period farms owned by blacks decreased from 41,052 to 28,062 or to 4.7 percent of the total. Among these, 88.1 percent had gross sales of less than $20,000.

Some Barriers Hindering Small Farms

Evidence shows that the small farm is severely disadvantaged by two classes of barriers: those that have their origin in policy adopted by existing institutions, and those that originate in policy regularly established as law. Each class of barriers is considered in turn.

The land-grant universities and their agricultural experiment stations and state cooperative extension services have not escaped criticism as being a barrier affecting access to resources by owner-operators of small farms. Few attacks have been more vigorous than that made in *Hard Tomatoes, Hard Times*, which stated:

> . . . the land grant colleges of this country have put their tax-supported resources almost solely into efforts that primarily have worked to the advantage and profit of large corporate enterprises. . . .
>
> The basis of land grant teaching, research, and extension work has been that "efficiency" is the greatest need in agriculture [5, p. 2].
>
> . . . there have been far-reaching side effects of the land grant college's preoccupation with the "green revolution." . . . rural America is crumbling. Not just the family farm, but every aspect of rural America is crumbling — schools, communities, churches, businesses and way of life [5, p. 3].

In response to this charge, the United States General Accounting Office (GAO) conducted two studies, one reporting in 1975, the other in 1980, that found that most agricultural research — much of which is conducted by public, tax-supported institutions — has been ill-suited to the needs of small farms. The GAO concluded in 1980 that large-scale enterprises have been the principal beneficiaries of agricultural research and extension in the farm sector [1].

Small, limited-resource farms also lack access to credit. A barrage of criticism recently has been leveled at the Farmers Home Administration (FmHA) for failure to provide "low interest" loans to low-equity, beginning, and other limited-resource farms. Congress responded in the Agricultural Program Adjustment Act of 1984 and directed the FmHA to allocate at the lower limited-resource interest rate at least 20 percent of both its appropriated farm ownership loan funds and farm operating loan funds to limited-resource farms. In fiscal year 1984, regular-farm ownership loans had an interest rate of 10.75 percent as compared to 5.25 percent for limited-resource farms. For operating loans, the rates were 10.25 percent and 7.25 percent. To assure adequate dissemination of information about its 20 percent policy the Congress required the FmHA to notify each current borrower and each recent applicant of its policy. Thus, subject to Congressional appropriation limits, the dollar volume of loans to small, limited-resource farms should increase, in particular for farm operating loans in the 15 states of the South. FmHA data for 1983-84 show that in only one state — Kentucky at 33.5 percent — did the FmHA exceed the 20 percent limit with the lowest being Virginia at 1.2 percent [3]. The 1984 act holds the potential for expanding access of some small farm owner-operators to loan funds for the purchase of land; but alone it will not overcome the problems of land prices and competition with large farms for land.

The farm commodity price-and-income support programs also limit small farm development, according to Pamela Browning, Civil Rights Analyst for the U. S. Commission on Civil Rights [1]. Established when most farms were small and all farms had low incomes, the benefits of price-and-income support programs were and still are directly based on program-eligible acreage and yield per acre. In addition to income from nonrecourse loans, cooperating producers of eligible commodities receive direct government payments. Kramer reports that these payments exceeded $1.82 billion in 1982. Of this total, producers in the southern states received $373 million, and 94 percent of this went to producers of cotton and rice. Nationally, producers with the smallest farms, those of less than 70 acres total cropland, comprised 31 percent of all cooperating producers, but they received just 4.2 percent of total direct payments. Kramer concludes that "if Congress desires to provide greater income assistance to the smaller producers, a different mechanism for determining payments would have to be devised from the current one [8].

In addition to these barriers, the typical black farmer with a small farm also must contend with problems of racial discrimination. In February, 1982, the United States Civil Rights Commission issued a report entitled *The Decline of Black Farming in America* that documented the many problems blacks have in obtaining credit and purchasing land, and the results — fewer, smaller, and less productive land holdings owned and operated by blacks [16].

A summary of barriers that owners of small farms face in obtaining access to resources include finding it difficult to

(1) access services of public agencies, in particular information disseminated by the land-grant universities,

(2) access credit resources from both public agencies and private institutions,

(3) access off-farm employment opportunities in many communities,

(4) access commodity loan programs and direct payment programs based on total output of specific commodities,

(5) access tax advantages available to farm owner-operators with taxable incomes subject to high marginal rates, and

(6) access an increasing percentage of land ownership.

The barriers faced by owners of small farms are clearly greater than those associated with learning to successfully produce farm products. These include having: access to a level of net income that is deemed socially adequate; access to a reasonable opportunity to earn income in an economy that has essentially completed the shift from a subsistence agriculture to a commercial agriculture; access to fairness and; access to justice.

Classifying Farms for Policy Purposes

Too often farm policies are designed to treat all farms as though they were reasonably similar. That is incorrect. To more clearly focus the policy issues associated with small farms, we pose a way of classifying all farms. For ease of reference, we number each class with a Roman numeral.

I. Farms on which the owner-operator and spouse are 65 years of age or older, without other family members living on or contributing to the farm, and (almost totally) dependent upon the sale of farm products for the family's cash income (perhaps supplemented by transfer payments).

II. Farms on which the owner-operator has (near) complete dependency upon the sale of farm products to provide income to support the farm family and off-farm employment opportunities are lacking or beyond an economic commuting distance. (Such distance may be quite short if the owner lacks marketable employable skills.)

III. Farms on which the owner-operator depends in part upon income earned from the sale of farm products and in part upon off-farm employment to provide income to support the farm family.

IV. Farms on which the owner-operator produces some farm products but is not dependent upon earning income from the sale of such products for the purpose of providing family support, which is provided in total from off-farm sources.

V. Farms on which the owner-operator (including farms operated for corporate entities) engages in commercial agricultural production for the purpose of providing income to support the farm family (or maximizing net returns on investment to the corporate entity).

Our system of classifying farms does not consider acreage owned, gross sales, net income, labor input, or management factors. The primary criterion of our classification is: *the capacity of the owner-operator to access opportunities to earn net income sufficient to support the farm family above the level of poverty.*

Class I Farms. Owner-operators of these farms will benefit little from major efforts devoted to increasing their agricultural production. Some improvement in income may occur but the effect will be small and of short endurance. Policy designed to make available increased (monetary) transfer payments and health care would provide greater equity and ease the later years of persons on farms in Class I. However, special effort would be appropriate to encourage those farm owners, of whatever race, who claim land to which the title is not clear to act to clear the title and prepare wills to enable proper transfer of their farms into estates. Few of these estates will owe estate taxes, but this should not preclude a major publicly-supported educational and service effort to assist in providing heirs clear title to the real property at issue.

Class II Farms. The potential for improving net incomes and stabilizing ownership of property seems greatest for farms in Class II. The owner-operators of some (perhaps a considerable) percentage of these farms can benefit directly from additional funds being devoted to small-farm research and extension programs. The direct provision of research and extension funds to the 1890 Institutions, as initiated by the 1977 farm bill, can aid in developing technology and production knowledge applicable to small farms. These research efforts could appropriately concentrate on developing cost-reducing technology that will decrease investment in mechanical equipment and lower the use of purchased inputs. Many owner-operators of farms in Class II may find that adopting the recommended practices of alternative agriculture is an effective way to reduce costs [17]. But more adjustments also will be needed. Research and extension programs devoted to developing new institutional arrangements for marketing farm products produced by small farms is an imperative. However, as important as these efforts may be, the outcome will ultimately depend upon institutional changes that create incentives to encourage small-farm owners to devote their land, labor, and capital to agricultural production. The resulting farms may be designated Class II(a). We designate the remainder of the Class II farms as Class II(b).

Owner-operators of farms in Class II(b) would continue earning part of the income to support their families from agricultural production and seek ways to begin earning part of the needed income from full-time off-farm employment. This adjustment will take time while both current and future small-farm owners in Class II(b) complete the training and education programs necessary to qualify them for off-farm employment. Simply participating in such programs may be adequate when the farmer lives in a community where off-farm employment is available. However, there are many communities where this is not the case and creating off-farm employment opportunities in these communities will require major efforts. An often recommended way to provide credit to small farms and promote development of off-farm employment opportunities in rural communities has been the establishment of a publicly-supported bank, say a rural development bank. Such a bank was again recently recommended by Secretary of Agriculture John Block [15].

To achieve the modifications necessary to expand employment opportunities in rural areas, Humphries argues that policy makers need answers to several questions [6, p. 887], including: What kind of nonfarm skills are most suitable for small-scale part-time farming? How can these skills be developed? How can off-farm work in the private and public sector be coordinated with small-scale farming? Answers to these and other questions combined with aptly targeted policies should successfully shift many Class II(b) into Class III.

Class III Farms. Owner-operators of farms in this class already have adjusted to the expanding industrial settlement in their areas. Even so, many of these farmers have a need for increased farm income to provide an adequate family income. This need can be met in part by research and extension programs directed toward developing cost-reducing production practices, marketing procedures, and technology applicable to Class II(a) farms, because the results also will be applicable to farms in Class III. A few Class III farms may develop into full-time commercial farms, but the majority will continue as part-time farms. Depending upon how effectively the programs directed toward areas with concentration of Class II(b) farms serve such areas, the policy of encouraging movement of employment opportunities to rural areas will also benefit some owner-operators of small farms in Class III.

Class IV Farms. Owner-operators of farms in this class do not depend upon earnings from agricultural production to support their families. Because these owners earn, entirely from off-farm sources, income sufficient to support their families and, in many cases, have income adequate to encourage them to seek tax shelters, they are often referred to as "hobby" or "tax" farmers. Changes in federal tax policy that reduce, perhaps eliminate, these benefits are often recommended. This would reduce the competition for land and lower its price. Cost-reducing research and extension programs developed for Class II(a) farms also would benefit Class IV farms. This should pose no difficulty, however, provided that the farms in Classes II(a), II(b), and III also are served. Policies that benefit areas where farms in Class II(b) are concentrated should have little direct impact on areas with Class IV farms.

Class V Farms. Owner-operators having farms in this class (including farms operated for corporate entities) depend upon commercial agricultural production to support their families (or corporate entities). These farms have the potential of benefiting from some research directed to developing cost-reducing production practices and technology applicable to small farms. The economies that these farms derive from volume production enable them to obtain relatively more benefits from farm commodity price-and-income programs and federal tax advantages than can small farms. This result enables farm owners in Class V — to use Philip Raup's descriptive phrase — to threaten (and practice) "economic cannibalism" of the small farms in their respective neighborhoods [10, p. 305]. Adjusting policy to substantially reduce the benefits of farm commodity programs and federal tax advantages applicable to purchases of land should have little effect on total agricultural output.

We suggest that our method of classifying farms can assist in clarifying the effects of making adjustments in barriers that limit access of small farms to resources. We also propose that our system of classifying farms improves the opportunity for more accurately targeting needed adjustments and development in policy. Our method of classifying farms, which we agree can be a subject of debate, clearly demonstrates the differences in the condition of our classes of farm owner-operators. Furthermore, our method provides a way of determining where the benefits of small-farm research and extension programs will apply and who will be made relatively worse off if the Congress elects to reduce certain tax advantages available to owners of farms and the income advantages associated with federally price-and-income programs. Having examined some barriers confronting owners of small farms and a method of classifying farms for policy development purposes, we present a summary of some policy changes proposed by others.*

Some Proposed Changes in Policy

The need to install procedures, processes, and policies that will expand access of small-farm owner-operators to the knowledge available in all the land-grant universities is starkly evident. Such an adjustment could result in major changes in internal incentive systems and external methods of program delivery as well as in subject matter delivered. However, resolving the small-farm problem clearly requires more than dissemination of information and knowledge about agricultural production and marketing. Starkly evident also is the need to redesign existing institutions and to install new institutions for the purpose of enabling families of owner-operators of small farms to have increased net farm incomes by gaining access to (1) opportunities arising from improved access to credit at reasonable terms, (2) cost-reducing technology and knowledge applicable to small farms, (3) off-farm employment opportunities, (4) education and services needed to achieve clear title to the land claimed, and (5) an expanding ownership of land — in short, to rural development.

Knutson, Black, and Emerson have presented a set of proposed changes in the federal tax system with the objective of promoting the survival of the family farm which is widely perceived as a small farm [7]. These changes include (a) removing the ability of farm owners to write off farm losses against off-farm income, (b) eliminating the investment tax credit for agriculture, (c) taxing realized capital gains at

*Thomas G. Johnson of the Virginia Tech Department of Agricultural Economics is developing this classification further in a paper to be presented to the 42nd Professional Agricultural Workers Conference being held at Tuskegee Dec. 2-4, 1984.

the same marginal tax rate as ordinary income, and (d) lowering the lower limit for tax-free inheritance transfers. They also propose that state governments authorize establishment, by the appropriate taxing authority (usually the county) of a progressive real property tax, based on the number of acres of land owned. Each of these changes would have the effect of increasing costs for large farms, improving equality of access to land-purchasing opportunities of small-farm owners in classes II and III, and broadening access to land ownership.

Numerous economists have proposed changes in farm commodity income-and-price support programs. Among the proposals are (1) a "two-level target-price system" that would provide to all cooperating producers a high deficiency-payment rate on a fixed number of units produced and a much lower rate on all units produced in excess of the fixed number; (2) an equal, "lump-sum direct payment" to all farmers if the market price falls below a set level; (3) a "graduated deficiency payment schedule" which pays farm operators a smaller percentage, say 50 percent, after the first $5,000 of deficiency payments, and (4) a "negative income tax" to provide farm families a payment if their incomes from all sources fall below some targeted amount [4]. These proposals have recently been supplemented by a proposal that would be income-tax based and provide tax credits and cash payments while assuring the Congress a budget-exposure limit that is certain [11].

Modifying the institutions and achieving the needed changes in policy will be tedious, difficult work. But the probability that changes will occur is very high. The 1984 case of the FmHA bodes well for owners of small farms seeking institutional adjustments to aid their farms. However, small-farm owners must achieve many adjustments they seek by looking beyond the committees of agriculture on both the federal and state level. Ultimately the key to the survival of the small, limited-resource farm is to respect the families living on such farms and to have the public understand that the problems of small farms are the nation's problem, a problem that deserves first-rate attention.

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