

## SMALL FARM POLICY: WHAT ROLE FOR THE GOVERNMENT?

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### Introduction

Interest in small farm issues has waxed and waned in the national farm policy arena over at least the last 40 years. The most recent national level attention to these issues was during the Carter administration. Despite the on-again-off-again record on small farm issues by policymakers in Washington, there is growing interest in small farms among Land Grant Universities and in some state governments.

Small farm policy formulation is hampered by the fact that "small farms" describe different perceived situations, each suggesting different policy prescriptions. While there are undoubtedly many small farm situations, we find it useful to generalize small farm concerns into two broad schools. The first, and older of the two, is concerned primarily with the disadvantaged conditions faced by some farmers unable to increase returns from their farms or increase income through off-farm employment and with policies to improve their well-being. The second school, of more recent origin, emerged during the late 1960s and 1970s. It focuses on the "industrialization of agriculture," the increasing concentration of farm production among fewer businesses. This school is concerned about government policies which foster the further industrialization of farming, and advocates changes which might enhance the competitive position of medium and smaller sized farm businesses.

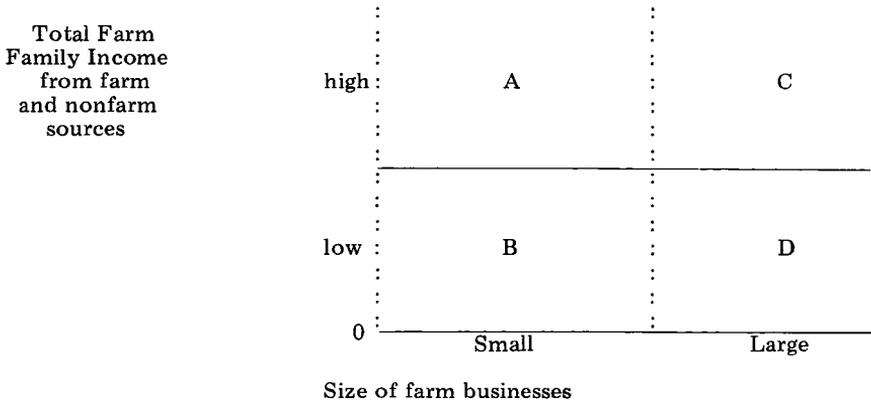
While both schools might endorse some common policies, there are important differences in the perceived role of government. For example, both schools might endorse with equal enthusiasm a policy of focusing government supported agricultural research and education on new production techniques advantageous to small farmers, but differ on the role of government in research on nonfarm ways to enhance family well-being. During the Carter administration, proponents of both schools were in important policy positions. The

resulting interaction provided interesting dialogue throughout the agricultural establishment.

*Small Farm Definition*

While it is necessary to have some concept of what a small farm is, a detailed discussion of a small farm definition will not be given. A general framework which has proved helpful for discussions (in Washington, D.C. anyway) recognizes the small farm both as a business establishment and as a component of farm family income (Figure 1). In what follows, we will adopt the convention of associating a family with each farm business, recognizing that in reality this assumption does not hold.

Figure 1. Relationships between size of farm business and family income.



The vertical axis in figure 1 represents level of total family income while the horizontal axis represents size of farm business. The particular quadrants then become; (A) representing high income families generally with substantial off-farm income and having a small farm business, (B) low income families with a small farm business, (C) high income large commercial farmers where farming is the predominant source of income, and (D) low income large commercial farmers. The target population of concern for our discussion includes areas A, B, and D.

The number of farm families in each cell in Figure 1 will vary depending on the particular definitions used to describe low family income or a small farm business. Low farm income is defined as less than the national median nonmetropolitan family income and small farm businesses are defined as establishments producing less than \$20,000 in farm products.

Of the 2.3 or so million farm operator families in the U.S. during the mid to late 1970s, about 30 percent would be in group A and

they would produce about 5 percent of all farm sales. Group B would include about 40 percent of all farm families and about 5 percent of all farm sales. Group C, operators of viable commercial farms, would include about 20 percent of all farm families but would produce about 70 percent of all farm sales. Group D would include about 10 percent of all farm families and produce about 20 percent of all farm sales. Thus, groups A, B, and D, the focal point of this paper, would include about 80 percent of all farm families in the U.S.

## Small Farm Policy Schools

### *Income Security, Equity, and Small Farmers*

The predominant view of small farm policy today evolves from the government's role in assuring economic security and equity for its citizens. Because rural poverty and farm poverty were nearly synonymous as late as the 1950s, small farm assistance programs were viewed as the primary vehicle for raising the income status of large segments of the rural population. Many small farm programs today continue to focus on the issue of farm family poverty and alternative ways to improve the well-being of the farm poor.

However, farm poverty is not as pervasive as it once was and is a much smaller component of the rural poverty problem than it was in the 1950's. Two factors have played an important role in reducing the magnitude of farm poverty since 1950. Millions of persons left agriculture finding employment or other means of support in the nonfarm sector.

For those who remained, growth in manufacturing jobs in rural communities followed later by employment growth in the service sectors provided the means whereby many farm families could combine farming with an off-farm job and raise their standard of living. One result was that the number of farm poor shrank, so that today farmers constitute about 4 percent of the U.S. poor compared to 20 percent as late as 1959.

Those families raising their income level by combining farming with an off-farm job are included in group A of figure 1. These families are viewed in some contexts as small farmers, but they no longer reflect the truly needy. Their total family income is commensurate with that of nonfarm families. In some cases, they reflect a new rural life style involving permanent part-time farming. It is increasingly difficult to justify public programs directed at this group using economic security criterion.

Despite the declining number of farm poor, the incidence of poverty among farm families (between 13 and 17 percent during the 1970s) is still higher than that of the population in general (around 11 percent during the 1970s). Typologies of the lower-income small

farm population (Group B) today are not unlike typologies of the small farm population in the 1950s.

Group B families include almost 80 percent of all black farmers, most other minority farmers perhaps with the exception of the Japanese, and over half the aged farmers. Agricultural resources available to these people are inadequate and/or managed poorly. As a group, they are at a disadvantage in trying to secure off-farm jobs either because of location, education and training, age, or race. And, many small farm families are not familiar with or linked with institutions which can assist them.

Policies commonly discussed today to assist group B farm families are not unlike those suggested to address small farm problems 30 years ago. For those in group B who are young, there are needs for better access to farm credit and specially designed technical assistance programs to improve farm management. For those who are young and middle aged, training programs to improve skills needed for off-farm employment could assist many.

For those who are aged and/or disabled, improved access to health care and other social services would improve their well-being. Given the recent rural population turnaround, relocation programs, a popular policy prescription in the 1950s, are less likely to be suggested today although in some cases they are probably appropriate. This public policy arena goes beyond the area of agricultural production and marketing to include topics of community development and social service delivery.

There is a component of group B which may be new relative to the situation in the 1950s. These are families who purposely choose to operate a small farm and receive a subsistence income as a way of life. There is no estimate of the number of such families nor information about their location. This new component, while generally felt to be few in number, are articulate and will request assistance in pursuing their chosen lifestyles.

Policy concerns of black farmers and other minorities involve not only issues of economic security but also equity issues. For years, most black farmers were not allowed access to the institutions designed to service farmers and, like other rural blacks, have been unable to capture their proportionate share of the general rural growth process. Strategies to improve income proved difficult to implement when institutions were unresponsive to circumstances faced by blacks.

Take the issue of credit for example. Most farm lenders, even public lenders, require that farm owners have clear title to real property offered as security for a loan. Many black farmers wishing to expand their farm production operate land passed down through generations and the title to the property has never been cleared of

claims by relatives. This prevents the individual from obtaining the needed loan. Nor does the individual necessarily have the resources needed to obtain legal assistance.

Situations like this have contributed to the rapid decline in the number of black owned farms since the 1950s. To be successful, policies and programs implemented to improve the incomes of black farmers (economic security) also had to be supported by efforts to assure and improve access to responsible institutions (equity). Thus, for the 80,000 remaining black and other minority farmers, government policies stemming from the 1964 Civil Rights Act and equal employment opportunity programs play an important role in assisting minority farmers by directly affecting the social climate under which assistance programs operate.

Institutional organization and management is also an important area of public policy which directly effects small farmers. The way officials choose to manage public (or private for that matter) institutions has an impact on implementing small farm assistance programs. There are good examples across the country where institutions, within a state or substate area, purposely changed their traditional methods of doing business in order to achieve a particular goal, an example is the successful extension small farm programs using para-professional aids. Many of these programs have resulted both in improved communications and operations on behalf of small farmers within various departments in the Land Grant University and in better interaction between university personnel and those in other institutions such as FmHA, SCS, and ASCS.

In other states, institutions are not as well linked as they could be to assist small farmers. It is important that discussions concerning the role of government include issues relating to institutional organization and management. These discussions should involve research and extension functions within and among the 1862 and 1890 Land Grant Universities and the relationships between the universities and nonuniversity institutions that can assist small farmers.

Changes in the federal-state income maintenance system over the last two decades could dampen support for special direct income supplement programs for small farmers. In general, the government income maintenance system has been greatly liberalized and extended since the 1950s. For example, the Food Stamp Program has been nationalized, the Supplemental Security Income Program for the aged and disabled has been developed and implemented, the AFDC program has been extended to include some two parent families in at least 27 states, and a refundable earned income tax credit has been included in the federal income tax code.

These programs all extend benefits to rural poor including small farmers. This is an entirely different environment than existed in the 1950s when small farmers had to rely primarily on farm income for

family support, off-farm jobs were not as prevalent, and the income maintenance system was not as extensive.

There are important issues relating to access by small-farm families to the national income maintenance system. Legislative and executive decisions about program eligibility rules can impact on small-farm families' eligibility to participate in programs. Two key rules involve income accounting and asset limitations. For example, most programs would not permit a family to participate if their assets exceeded a certain specified amount. In most cases, business assets are excluded from consideration.

There have been recent proposals, however, to change some asset tests such that income would be imputed to business assets and applied as countable income for purposes of determining program eligibility. This would sharply restrict potential participation by low income small farmers, particularly if returns to their farms were substantially below the imputed rate of return selected by program administrators. Similarly, how state and local governments go about delivering programs also affects potential participants' ability to enroll in programs. A rural elderly person without personal transportation, for example, is unlikely to travel a substantial distance to participate in a congregate meals program designed to improve nutrition levels. Research and extension workers can play an important role in alerting policymakers to the unique circumstances confronted by the rural poor, particularly low income families living on small farms.

### *Structural change and small farms*

The dramatic trends that have occurred in the farm sector since World War II, exemplified by the rapid reduction in the number of farms and increase in average farm size. The agricultural establishment was proud of the role that research and extension had played in the modernization of U.S. Agriculture. An alternative assessment of these trends made by groups outside the agricultural mainstream, a view offered in such reports as *Hard Tomatoes, Hard Times* was not anticipated. The policy recommendations made by the structuralists are often couched in terms of small farm policies but are not really focused on the incomes of small farm families per se. Yet structuralists arguments play a role in small farm policy debates.

The central point of the structuralists argument is that the farming sector has reached a stage where society will no longer realize substantial gain from public policies which encourage the continued growth of large commercial farms. Technical economics, measured in terms of unit cost, can be achieved by farms of rather modest size, considerably smaller than most larger commercial farms today. Continued impetus for farm enlargement comes from the desire to increase income and/or gain greater advantage in the input and

product markets. To the extent that larger producers can gain superior access to input and product markets, medium sized and smaller producers are placed at a disadvantage.

While it is recognized that income variability from farming has increased over the decade of the 1970s, it cannot be argued that large farmers as a group are necessarily at an income disadvantage relative to nonfarm households. This is not to say that some large farmers (Group D) do not have income problems, but rather these problems stem from a different source than was true 20 or 30 years ago.

Today income problems of some large farmers appear to result more from short run circumstances such as periodic poor yields, natural disasters, or periodic high interest rates (which affect farmers with low business equity) rather than the long-run excess production capacity problems faced by the farm sector in the 1950s and 1960s.

Structuralists argue that the increased concentration of agriculture spurred on by public policies and programs over the last 40 years in concert with a supportive economic environment has come at a large social cost. These costs are measured in part in terms of the dislocation of families and decline of many rural communities, some of which have not yet participated in the rural turnaround of the 1970s, increased environmental hazards, and a deterioration of food quality.

While these social costs were offset in part by cheaper food prices over the period, continued consolidation of farming is unlikely to result in further reduction of food prices or other social advantages. Rather continuation of current policies will result in agricultural wealth being distributed among even fewer people — an agricultural elite. If current policies continue unchanged, the family farm of the past will likely disappear; and the family farm institution is viewed by many to be important to society's strength.

The structuralists policy agenda is fairly broad but consists of two main elements. The first is an opening up of the decision making process concerning agricultural research and extension to interest groups outside the agricultural mainstream. Second is a call for neutrality with respect to agricultural programs and policy (e.g., research should not favor any one particular group of agricultural producers over others).

The influence of the structuralists has definitely been felt in the public policy arena. The Food and Agricultural Act of 1977 contains several provisions which reflect the philosophy of the group. A National Agricultural Research and Extension Users Advisory Board was created, some of whose members were mandated to be from outside the traditional agricultural establishment.

The Joint Council on Food and Agricultural Sciences was also established and membership extended to non-traditionalists though

the balance remained with the traditionalists. Research funding was also opened up to a wider array of institutions beyond the Land Grant Universities. Versions of the 1981 Farm Bill do not retreat significantly from the changes implemented as a result of the 1977 act.

The advent of the structuralists, particularly their rise to a policy role in the USDA, brought on an interesting defense from the traditional agricultural research-education establishment. This defense encompassed identifying the proportion of total research within the USDA-Land Grant system devoted specifically to small farm issues and assessing the general size neutrality of technological research in the system. For example, the Ad Hoc Committee on Small Farms of the Joint Council concluded that 84 percent of the (then) SEA research was size neutral.

A similar study undertaken by the Experiment Station Committee on Organization and Policy concluded that research at state agricultural experiment stations is not slanted towards large farms but because of the economic environment in which the new knowledge is adopted, the research has contributed to increased concentration of production.

These investigations into the relative neutrality of agricultural research and education did yield a public rationale for assisting small scale farmers. The principles underlying such a rationale as suggested by the Ad Hoc Committee include (1) all farmers should be in a position to benefit from agricultural research and education, thus programs must meet the unique needs of both small and larger farmers; (2) human dignity dictates that efforts should be made to assist low-income farmers by either farm or nonfarm strategies; (3) an agricultural system should provide the option for small and part-time farming as a life style; and (4) small farm assistance will promote better management and more effective use of significant natural resources. ECOP recommended the appropriate focus of small farm research as being on the alleviation of poverty and under-employment rather than on small farms per se.

Many of the policy recommendations of the structuralists would assist low income small farmers to obtain better access to the agricultural system. These include, for example, improved targeting of public farm credit programs and refocusing research and extension programs to developing new technologies specifically adaptable to smaller farm businesses.

Other policy guidelines would have a greater impact on groups A and D. For example, neutralizing tax policies such as modifying current provisions for cash accounting and capital asset treatment could change the incentives for outside investment in agriculture. This would affect the demand for agricultural resources by elements in Group A but could not be expected to directly help group B

farmers. Thus, while the policies advocated by the structuralists will go a long way to enhancing the competitive position of small farmers, the structuralists fall far short of advocating a guaranteed living from a small farm.

### **The Future for Small Farm Programs**

The economic and political climate is substantially different today than was true when many past small farm efforts were undertaken. At the federal level, most programs designed to enhance economic security are being re-examined in light of rapid inflation, lagging productivity, and mounting budget deficits. State governments too, many operating with budget surpluses in the early 1970s, now face severe budget problems.

Under these conditions, it is unlikely that massive new funds for small farm activities will be forthcoming. Can a case be made to continue small farm efforts in light of changing government priorities? What might small farm efforts entail in this environment?

Structuralist philosophy would provide one basis for redistributing public resources (dollars and personnel) in favor of a medium-sized and smaller producers. That is, large farms are by and large relatively efficient and provide owners with generally good incomes. Operators of larger units have the where-with-all to adopt new technology developed both by the private and public sector. Under favorable marketing incentives private agricultural input and marketing firms can continue to develop and disseminate production enhancing technology for larger farmers.

Beyond government efforts to stabilize farm prices, large farmers could depend more on the private sector for information and assistance. Thus the public sector, particularly research and extension education, can begin to concentrate more on activities which would enhance the productivity of physical and human resources owned and controlled by operators of smaller farms.

For some states and substate areas, adoption of this philosophy would merely reinforce trends already underway. For others, it would represent a substantial change in operation including altering the network in which research and extension operates and the incentives given to public employees. Rather than identifying strictly with farm production orientated groups, researchers and extension workers might expand contacts to include groups concerned with community development and social service delivery.

This change would recognize the fact that many small farm families could best be assisted through nonagricultural means such as off-farm employment or better access to health care and income maintenance programs. To stimulate such a change, county agents would need to receive the same rewards for directing a small farm

family towards an off-farm job, for example, as they would receive for assisting a farmer to improve yields.

Adopting a policy of directing research and extension efforts towards medium sized and smaller producers might also affect the distribution of future federal research and extension funds. Within states, for example, extension resources might be gradually shifted out of counties or substate areas dominated by large commercial farms into areas with numerous smaller farms. In addition, formulas used to distribute federal funds to the states might also be modified to give more weight to medium and smaller sized farms thereby shifting funds into states with relatively more such farms. If larger farm operators rely less on extension and/or public research for technical guidance, then less weight should be given to extension and research directed at larger farms. Even the resources directed at "size neutral" activities might be redirected more towards activities favoring smaller farmers if, as the traditionalists argue, the economic environment makes size neutral activities more beneficial to larger farms.

Some public interest groups, public officials and researchers have advocated changing farm commodity and other production-oriented programs and federal income tax provisions such that smaller farmers would receive higher payments or benefits than larger farmers. Many of these proposals would affect the general economic climate in which small farmers operate. But changes such as these would only indirectly affect those farmers in Group B who produce a relatively small proportion of farm sales. Modifying commodity programs and tax laws such that the farm incomes of Group B are greatly increased could be exceedingly costly to taxpayers. There is a need to examine the trade-offs between redirecting extension and research and changing farm commodity programs, credit policies, and tax codes as ways to improve the well-being of low-income small farmers.

Given the past importance of non-farm options for improving the well-being of low-income small farmers, non-farm alternatives to assisting small farmers will likely be included in future small farm programs. The greatest loss in the number of farmers since 1950 has occurred among those who did little off-farm work; those combining farming with a non-farm activity appear to have "staying power". Any predominantly "farm options only" approach to small farm assistance should be seriously reconsidered. While the goal of any small farm effort should be to help families maintain a farm, that farm need not necessarily provide the sole or predominant source of income for the family.

For minority farmers, continued efforts in the civil rights area will be important to improve the social environment under which they operate. These efforts include representation on committees and full participation in USDA and Land Grant University programs.

The role of government portrayed is not one of guaranteeing livable incomes for part-time and small commercial farmers. Rather it focuses on targeting government assistance to those farm families least likely to be helped through the private sector primarily by expanding options beyond conventional agricultural production and assuring equal treatment for all citizens.

Views expressed in this paper are those of the authors and do not necessarily reflect those of the Economic Research Service, U.S.D.A., or the University of Arkansas.

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