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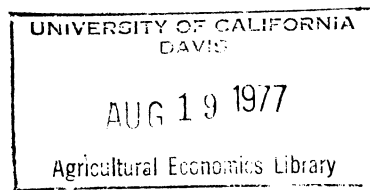
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THE RELEVANCE OF AGRICULTURAL POLICY
DIRECTED TOWARD SMALL FARMERS

by

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THE RELEVANCE OF AGRICULTURAL POLICY DIRECTED TOWARD SMALL FARMERS

During the past few years, attention has begun to be focused on the plight of the small-farm operator. Even with this increased attention a general concensus has not been reached as to the definition of a small farm. My program assistant likes to define a small farmer as one who stands less than 5'3" in height and weighs less than 120 pounds. Although this provides a very definite criteria for defining a small farmer it gives us very little insight into the economic situation and the problems faced by the small-farm population. Neither the physical size of the operator nor the physical size of the farm operation is very helpful in defining the economic problem faced by small-farm operators. The 1969 Census of Agriculture (1) reports that there are approximately 180,000 farms that contain more than 140 acres yet have gross sales of less than \$2,500.

Gross sales of agriculture products is probably not much more helpful in providing insight into the economic position of the farm family. However, this information is readily available and is an economic measure that can be more easily translated to reflect the family's economic condition. The distribution of farm incomes is a continuous distribution. Therefore, any division between large and small farms is necessarily arbitrary. Tweeten and Schreiner (2) estimated that in 1965 the break-even point for farms coincided with a value of sales level of over \$30,000 annually. Smaller farms were regularly losing money and were continuing to survive only because the operations were willing to accept lower returns to their labor and equity than they would receive in other forms of employment. At that time gross farm sales of \$10,000 appeared to be a useful breaking point

between marginal and commercial farms. Since price levels have more than doubled since 1965 it would seem appropriate in 1977 to use a base figure of at least \$20,000 in annual sales of agriculture products as an arbitrary dividing point between the small and the not-so-small farm operations.

Preliminary data from the 1974 Census of Agriculture (3) indicates that 2/3 of the Nation's farms have gross sales of less than \$20,000 annually.

Realized net farm income from this group averaged about \$2,300 in 1975 (4).

Off-farm income, which averaged \$12,000, was the major source of family income.

Although this group of farm operators controls 38% of all land in farms, they receive less than 11% of the total cash receipts from farming.

The small-farm problem is generally expressed in one of two ways: one, the existence of the very large number of farm units that receive a very low return; and two, the rapid decline in the number of farms included in the category. The 1969 Census of Agriculture (1) reports that in the U.S. 2,177,568 farms had gross sales of less than \$20,000. This accounted for 79.8% of all farm units and these farms controlled 50.7% of all land in farms. Preliminary data for the 1974 Census of Agriculture (3) reports 1,666,903 farm units with gross sales of less than \$20,000. This accounted for 68% of all farm units. The change in farm numbers between 1969 and 1974 indicates a decrease of 510,666 farms reporting less than \$20,000 gross sales. During this same time period total farm numbers decreased by only 280,125 farms. This difference indicates that not all of the reduction of small farm numbers is due to farms being forced out of agriculture. Many of the units that are no longer included in this category are included in higher income categories either because of the enlargement in the size of the operation, or due to the effect of inflation on agricultural prices.

Using these two criteria to describe the aggregate small-farm problem produces a dilemma in defining goals and developing courses of action. If the problem is that there are too many farms receiving a very low return, then a logical solution is to reduce the number of farms in that category. On the other hand, if the problem is that the number of small farms is decreasing too rapidly, then a logical solution would be to encourage the maintenance of small farms even though they provide a very low level of income.

Much of the widening economic gap between the large and the small farm operations is attributed to the differential adoption of technology and the uneven impact of previous agricultural policy (2,5). It is generally accepted that over the past 30 years technological progress has taken place at an ever increasing rate. Large farms are currently more efficient than small farms and this difference in efficiency is increasing as the large farms become even more efficient. Small farms that do not adjust their technology are placed in an even more disadvantageous position. The more time that elapses before technological adjustments are made the greater the magnitude of the adjustment that must eventually be made if the farms are to remain economically viable.

In absolute terms, a disproportionate amount of the direct benefits arising out of agricultural commodity programs has gone to the larger farm operations. This fact has recently been used as an argument against agricultural price support and income generating programs. Although the small farmer has received less in absolute terms, the importance of the government payments in relation to total farm income may have been more important to small farms than to large farms. On the average, government payments have represented a larger percentage of total farm income for small farms than for large farms. Examples of programs which have been especially helpful

to small farmers are the sugar beet and tobacco programs.

Although it is easy to identify the effects of technological change and previous agricultural policies, concentrating on these may leave the underlying factors unaddressed. Governmental policies and programs are developed to further the achievement of the goals of society. Unfortunately, not all of society's goals are compatible. Different segments of society have different goals and priorities. When these are in conflict there must either be a winner and a loser or trade-offs must be made. No sector of our society exists in isolation. We live in a dynamic, interacting society where changes in one sector affect all other sectors to a major or minor degree. It is not necessarily a zero-sum game, but to agriculture it often seems that way. It is impossible to list all the goals, values and priorities of our society. However, a partial listing of some of the stated and revealed goals of society that impact on the agricultural sector may be helpful in stimulating discussion. Such goals and values as low cost food, accumulation of material wealth, increased leisure, environmental quality, human rights, peace, stability, prosperity, freedom, and individuality provide the basis for governmental policy and action. However, actions taken to achieve one goal may hinder other goals.

At the present time, society expresses the desire for low cost food, improved environmental quality, improvement in the balance of foreign trade, the elimination of poverty, price stability and protection of the small farm. These goals are not independent and in many ways are competitive. Pursuing a policy of maintaining artificially low food prices is not compatible with stability in agriculture. Efforts to constantly drive down agricultural prices result in uncertain price expectations and instability in agriculture. Individual entrepreneurs attempting to adjust to this pressure seek increased efficiency in production and greater control and certainty in

marketing. As stated earlier, efficiency is associated with increases in size. Given a fixed land base, increases in average size must be accompanied by decreases in number. The change will occur on the marginal units. Small farms will bear the greatest burden of providing society low cost food.

Price stability is enhanced by orderly marketing. Agricultural Cooperatives are encouraged by the Capper-Volstead Act of 1922 to work together in an effort to achieve orderly marketing and provide the farmer some control over the price he receives for his product. Recent actions by the Federal Trade Commission staff indicate that the "unduly enhancing" clause of the Capper-Volstead Act will be used to justify anti-trust action against producer cooperatives (6). If the criteria for determining undue enhancement is the increase in price over what might be received if no supply control were exercised rather than what is needed to cover production costs and provide a fair return to resources, then agricultural cooperatives will have been deprived of their ability to improve stability in the agricultural sector. Two goals are in conflict. If producers cannot cover the full cost of production then they will be forced out of business. Again, the burden of adjustment will fall on the small, less efficient farmers.

The Environmental Protection Agency and the Food and Drug Administration are constantly issuing regulations which result in increased cost of production or decreased availability of technical inputs. There is no doubt that there is a conflict between the goals of environmental quality, low cost food, agricultural stability and perpetuation of the small farm. The full cost of achieving environmental quality is not known. Therefore, trade-offs cannot be adequately determined. Unfortunately, during the transition period, the small farmer will be placed at an even greater disadvantage.

Government policies do not operate in a vacuum. The impact of special interest policies favoring one segment of society may shift a major burden

onto another segment. Protectionism and artificial restraints on imports may protect jobs in one industry, however, the burden for the increased cost of imports is borne not by the foreign competition but by the U.S. consumer. The increase in cost of living unaccompanied by increases in agricultural prices placed agriculture in an even less favorable position. In this manner, the agricultural sector of our economy is subsidizing the television and shoe industries in the United States.

Just as there is an ordering of goals and priorities in society, individuals also have priorities in their own goals. It is important in the development of agricultural policy that the goals of the individuals be taken into consideration in the conceptualization and the development of policy.

Economists like to assume that profit maximization is the primary goal of "rational man". Since small farm operators are rational beings, then profit maximization should be their primary goal. However, it has been observed for some time that farmers, especially small-farm operators, appear to make management decisions that tend to increase security and certainty of expectation rather than maximize profit (7). These characteristics are closely associated with a reluctance to adopt new ideas and technologies (8,9). Smith and Capstick (10) surveyed one hundred and eleven farmers in northeast Arkansas in an effort to test if profit maximization was the primary goal. In ranking the ten goal alternatives in the survey, farmers placed profit maximization seventh. In order of ranking, the ten goals were 1) stay in business, 2) stabilize income, 3) increase efficiency and production, 4) provide a college education for children, 5) improve standard of living, 6) reduce borrowing, 7) maximize profit, 8) increase leisure time, 9) increase net worth, and 10) increase farm size. Consideration of this goal ranking indicated that stability and certainty were much more important in the value structure of small farm operators than profit maximization. The development of policies,

procedures, and programs should take this into consideration and focus on these goals rather than strict profit maximization.

Since the goal rankings indicate that security, certainty of expectation, and current income level hold a higher priority than profit maximization or the accumulation of wealth, agricultural policies should be geared to reach these goals. Policies that reduce the magnitude of price fluctuations and encourage an orderly supply will improve the certainty of expectation. Policies that assist the farmer in receiving an adequate return will improve the income situation. Education and training programs improve the efficiency and productivity of the resources utilized by small farmers. This increases the income situation and provides an alternative of off-farm employment to the better trained individuals. Encouraging development of industries in rural areas increases the opportunity for new careers or part-time employment.

Net returns can be improved by increasing the revenue from sales, or decreasing the cost of production. Cost reduction policies or technologies which do not affect output will improve net returns directly without undesirable side effects on other sectors of agriculture. Revenue can be increased by increasing the quantity or the price of commodities. Price increases would benefit all sizes of farms not just the small farm operators. Commodity price increases can be achieved by supply control, price guarantees or price supports. Supply control can be achieved either through voluntary action or required compliance with government regulations. The more voluntary the system, the more nearly the price to the consumer represents the cost of production. Strict regulations, price controls or price supports often conceal the true cost and result in inefficiency and misallocation of resources.

Revenue increases can be achieved by increasing output, assuming a constant price level. Output can be increased by increasing the amount of resources used or by increasing their productivity. Since the agricultural land base is fixed, increasing the size of existing small-farms would require

consolidation and a reduction in the number of farms. Adding labor and capital to the existing land units would result in increased production. Since agricultural commodities are price inelastic the increase in output would result in more than proportional decreases in price and a reduction in total revenue to agriculture would result. Since small farmers receive such a small proportion of total revenue it is often suggested that the price decreases would be minimal. However, it might be helpful to remember that this group, farms with less than \$20,000 annual gross sales, controls almost 40% of the U.S. agricultural land base.

The productivity of an individual and his use of resources can be improved through education and training. Educational programs directed toward small farm operators can pay great dividends in increased efficiency in agricultural production and/or in the preparation of the individual for off-farm employment. The Extension Service has the framework for implementing and developing effective education and training programs for small-farm operators. However, the success of these programs will require adjustments in technique, reporting and evaluation systems. Interpersonal communication techniques are most effective in communicating ideas and innovations to small-farm operators (8,11,12). Programs directed toward contacting this audience require more personal contact and less dependence on mass media approaches. It will be necessary to alter the reporting and program evaluation process de-emphasizing the number of contacts in favor of more effective communication contacts. Program accomplishments will have to be evaluated on the basis of changes in human attitudes, characteristics and abilities rather than changes in physical units. These communication techniques are not new to Extension. These are the techniques used by Extension while developing into the major source of information for the agricultural sector. Unfortunately, these techniques were downgraded in the 1960's as more reliance was placed on mass

media channels of communication and "head count" became the basis for evaluating program performance.

Education and training programs for small farmers will not be simple. Progress will be slow and costly. Priorities must be rearranged. Either additional funding and personnel must be added or emphasis must be shifted from existing programs. The wide gap between the large farm and the small farm has developed in part because the small-farm operators are relatively slower to adopt new ideas and new technology (11, 13). There is no reason to assume that they will suddenly change these attitudes and become active adopters and cooperators in the new programs.

Other than direct payment programs it is very difficult to design policies that will benefit only small-farm operators. Programs which improve stability and price expectations help all farmers. Technologies and training designed for small-farm operators may be adapted and applied by larger-farm operators. The benefits will accrue to those who participate and take advantage of the programs and policies. Small-farm programs will require greatly increased public expenditures over a long period of time. The problem is likely to get worse before it gets better. The income gap between the large and the small will increase and farm numbers will continue to decrease before a stable agricultural situation is achieved. Even when food costs account for less than 20% of the consumers take-home dollar the public resists prices which cover the full cost of production. Only time will tell if the public is willing to pay the cost of maintaining the small farm.

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