by Betsey Kuhn and Susan Offutt ■ In Short

Farm Policy in an Era of Farm Diversity

Farm policy is in flux. Legislation enacted in 1996 aimed to end or at least lessen the sector's reliance on farm programs. Farmers were to become more market-oriented while receiving declining government payments over time. But low commodity prices led to unanticipated sectoral distress. Strong and effective political support, however, came to the rescue and provided a $6 billion bailout in 1998. The size of the bailout on the heels of the 1996 farm bill raises questions about the need to reevaluate farm policy. While most discussion in the public arena has focused on what form and how much assistance to provide, fundamental issues about the ultimate goals of farm policy have not been squarely addressed.

USDA's Economic Research Service (ERS) is uniquely positioned to support deliberation on alternative federal farm policy goals and policy options by virtue of its national perspective on the U.S. food and agricultural economy and the nation's natural resource base. As underpinning for the coming debate on farm policy, ERS analysts have developed succinct ways of characterizing the diversity in the circumstances of U.S. farms. Here, we present a new farm typology defined with respect to the objectives of farm operators, not simply sales classes. Farmers who are retired and "farmers" who state that their main occupation is something other than farming, such as investment banker or agricultural economist, are not the central focus of farm policy. Instead, farm policy focuses on individuals and families whose principal occupation is farming. This new typology provides a basis for discussing the means and the ends of federal agricultural policy.

The heterogeneity of the farm sector

Serious discussion of farm policy needs to recognize the heterogeneity of the sector; there is no representative farm. Instead, farm households and firms differ along a variety of dimensions. Based on the data collected in USDA's national Agriculture and Resource Management Survey (ARMS), ERS analysts Janet Perry, Bob Hoppe, and Jim Johnson have developed a farm typology that jointly considers the economic size of the business and the occupational decisions of farmers. The typology recognizes the important distinction between farms whose operators consider themselves to be retired or who consider their primary occupations to be other than farming and farms with operators more actively engaged in production.

- Limited resource farms are those with gross sales less than $100,000, total farm assets less than $150,000, and total operator household income (from all sources) less than $20,000 annually. Operators in this category may report farming, a nonfarm occupation, or retirement as their major occupation.
- Retirement farms are those whose operators report they are retired but whose income and assets are greater than those in the limited resource category.
- Residential and lifestyle farms are those whose operators report their major occupation as other than farming, again excluding those with limited resources.
- Farming occupation/low sales farms are units with sales less than $100,000 whose operators say farming is their major occupation.
- Farm occupation/high sales farms are those with sales between $100,000 and $249,999 whose operators report farming as their major occupation.
- Large family farms report sales between $250,000 and $499,999, with the operator's main occupation being farming.
- Very large family farms have sales over $500,000, and are operated by those who regard farming as their main occupation.
- Nonfamily farms are those organized as nonfamily corporations or cooperatives, as well as farms operated by hired managers.

Family corporations are distributed among the other types

Figure 1 presents the ARMS data on numbers of U.S. farms arrayed according to the typology. In 1997, there were 2,049,384 farms. For our policy analysis, we exclude retired, very large family, and corporate farms (18.9% of all farms) in order to sharpen the focus on the well-being of those relatively small family farms that have traditionally been regarded as the object of federal policy.

ERS analysts Mitch Morehart and Leslie Whitener have computed the income distribution for farm households in figure 2. Including income from nonfarm activities puts these farm households on the same footing as other U.S. households. Average farm and nonfarm household incomes are com-

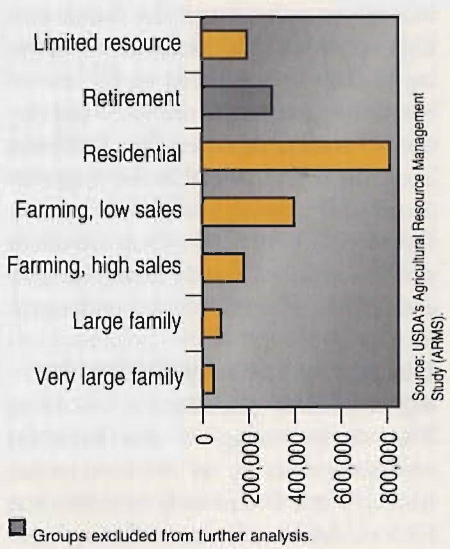


Figure 1. Number of farms by the ERS farm typology, 1997

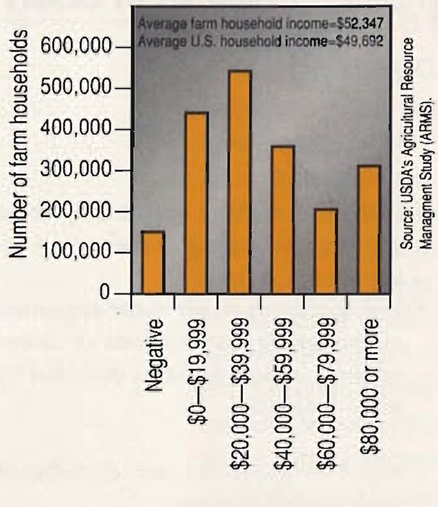


Figure 2. Number of farm households by household income, 1997

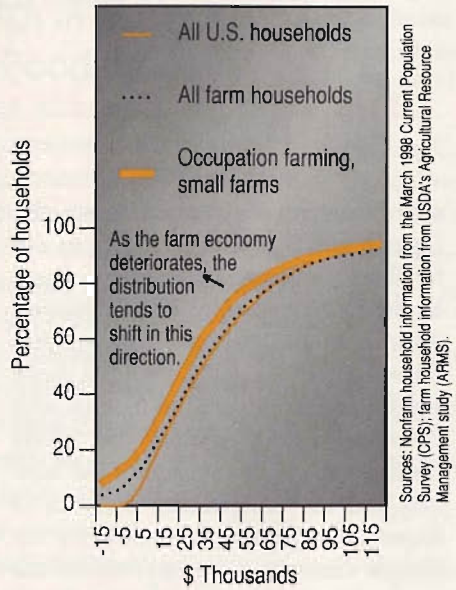
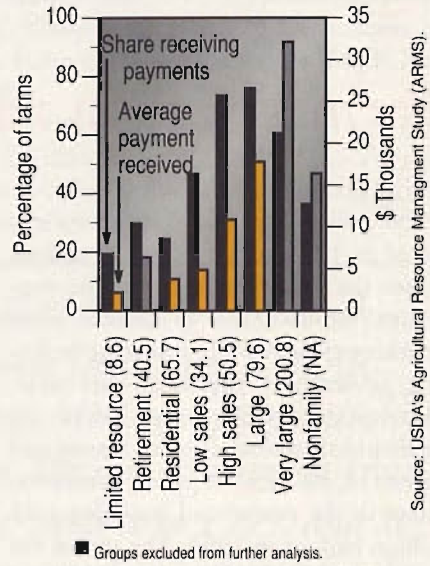


Figure 3. Cumulative distributions of farm and nonfarm households by household income, 1997



Note: Average income, in thousands, of all farm households in the group is shown in parentheses with the group name.
NA=Not applicable, household income not calculated for nonfamily farms.

Figure 4. Share of farms receiving direct government payments and average payment received by ERS farm typology, 1997

parable ($52,347 and $49,692). However, figure 2 also shows that about half a million farm households had incomes below $20,000 in 1997. By the same token, about half a million farm households had incomes above the national average.

The comparison to nonfarm incomes is portrayed in figure 3, which shows the cumulative income distributions for family-run, active farming households with that for all farm households and for all U.S. households. The family-run, small farm household distribution lies farther to the left of the cumulative distributions of all nonfarm households and of the one for all farm households. Specifically, the gap for all income quartiles except the fourth (the highest) shows that smaller family farms lag in income compared to the rest of the farm sector and the U.S. population. It should be noted that 1997, the latest data year available for farm income, was a good year for the sector. Data for 1998 or 1999, when the sector performed more poorly than the general economy, would show a wider gap.

Using the farm typology for agricultural policy

This analysis suggests one basis for evaluating a "safety net" for farm households. Work is currently underway at ERS to define alternative "safety net" concepts, evaluating economic rationales and finding precedents in other government programs for low- and middle-income households. Because federal payments under existing programs tend to go to farm households with larger operations and higher incomes, a safety net aimed at income maintenance on the low end could imply significant shifts in the payment distribution (figure 4). Under the current system, limited-resource farmers with household incomes of $8,600 have the lowest participation rate of any type of farm (19.4 percent) and receive direct payments of $2,200, while very large farms with household incomes of $200,800 have one of the highest participation rates (60.5 percent) and receive direct payments of $32,100. Of course, farm policy has goals other than income assurance, including sustainable management of natural resources and expansion of market opportunities, which might be broadly considered part of a "safety net" as well. Still, the relevance of both environmental and commercial policy varies with farm type. The typology is intended as a useful tool for evaluating the implications of a range of policies. ■

■ For more information

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The views expressed in this article are those of the authors and do not necessarily reflect the views of the U.S. Department of Agriculture.

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