is highlighted by their average lease payments of $30,500 compared to average interest expense of less than $7,000.

Conclusions

The results of the study indicate the importance of leasing as a source of capital for commercial farms is much greater than that of debt capital. Only 11% of total managed capital is borrowed, whereas leased capital accounts for 40% of the total. Equity accounts for the balance. To gain control of productive assets, low-wealth farmers, particularly young operators, rely more heavily on leasing than other classes of operators. However, debt capital is a significant source of nonreal estate capital for these low-wealth farmers. The research also indicates that internally generated capital from the farm business or nonfarm sources is often limited to wealthier commercial farms.

The results have implications for Federal agricultural credit policy. For young low-wealth farmers, USDA direct lending programs supply only about 5% of their total managed capital. The Federal Agricultural Improvement and Reform Act of 1996, which further targets these programs to beginning farmers, will likely boost this share. However, these operators will still rely mostly on landlords and commercial banks for their capital needs. Given their reliance on leased capital, young and low-wealth operators might benefit more from policies that improve the efficiency or attractiveness of leasing arrangements. This might be accomplished through the tax code by giving favorable tax treatment to landlords on leases involving beginning farmers. ▲

Defining Commercial Farm Operators

Commercial-sized farms have more than $50,000 in annual sales and produce nearly 90% of the total value of U.S. farm production. Non-commercial farms tend to be operated by part-time or lifestyle farmers who may be willing to maintain greater capital investments than a commercial operator. Thus, excluding them provides a more representative picture of the capital actually used to produce farm products.

Commercial-sized farms were divided into six groups based on age and wealth. For younger farmers, the equity thresholds defining the low, moderate, and wealthy categories were lower than for the older group. This was done to account for the overall increase in wealth with age.

- Young farmers – Under 40 years of age
  - Low-wealth – Under $150,000 net worth
  - Moderate – $150,000 to $500,000 net worth
  - Wealthy – More than $500,000 net worth
- Older farmers – 40 years of age or older
  - Low-wealth – Under $250,000 net worth
  - Moderate – $250,000 to $1,000,000 net worth
  - Wealthy – More than $1,000,000 net worth

USDA's Farm Costs and Returns Survey for 1994 was used to complete the study. Balance sheet assets are valued at their current value and not their cost basis. Therefore, the operator's out-of-pocket capital cost may be more or less than stated, depending heavily on when farm real estate assets were acquired. Leased real estate values were obtained directly from the FCRS, but the value of nonreal estate assets were imputed from other data. Also, only assets associated with the operator's farm business were included in the study. Consequently, it does not provide a complete accounting of farm sector participants' assets and liabilities. However, for most farm operators the majority of their net worth is invested in farm assets. ▲