



# Policies Affecting Income of Farm Households

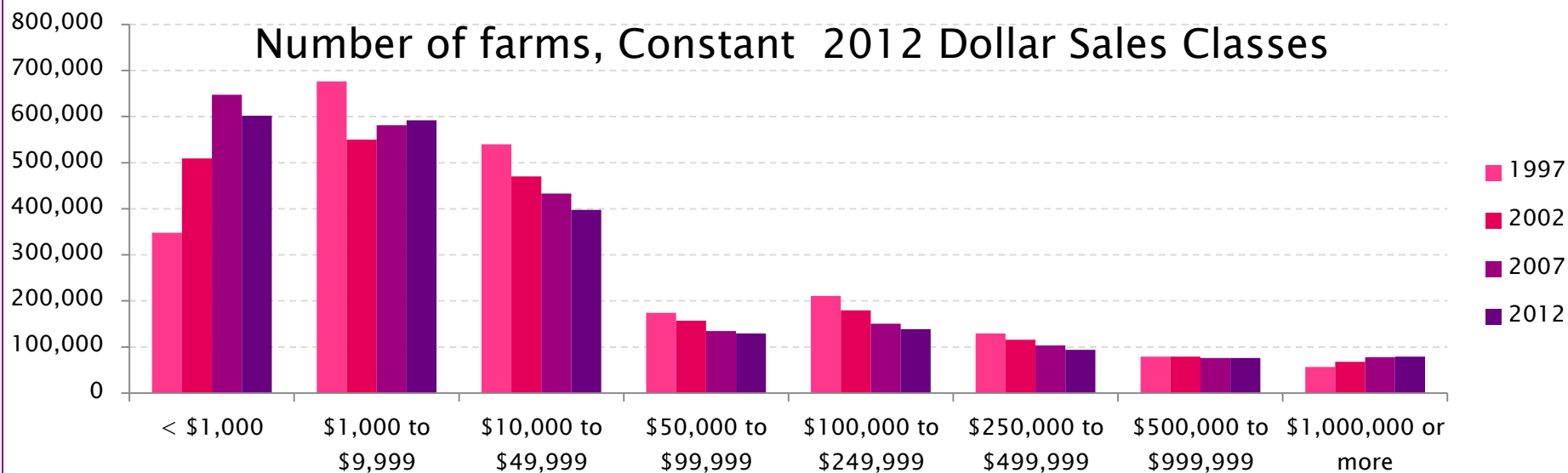
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Federal Reserve Chicago

# Outline of the presentation



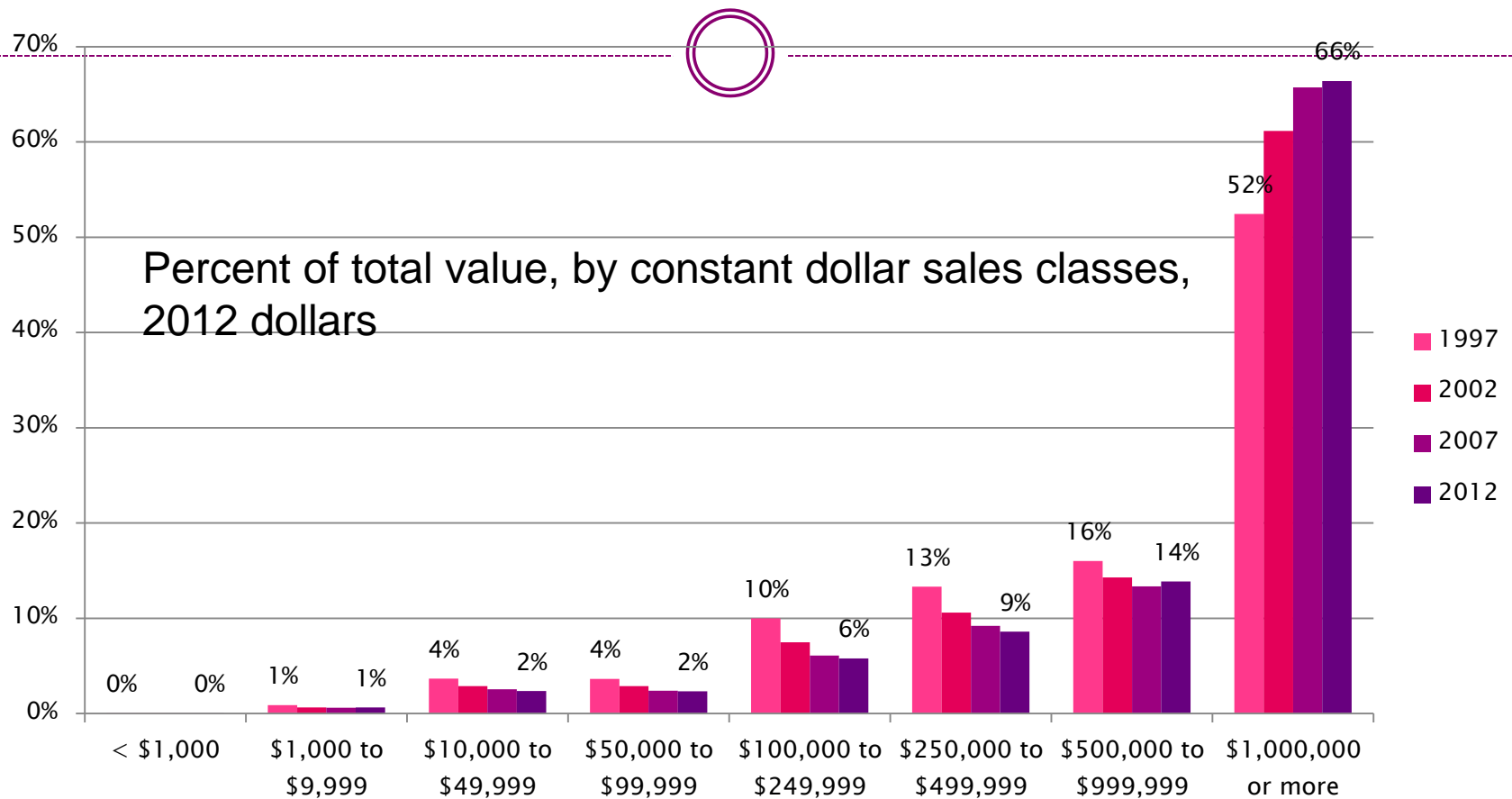
- Farm Structure and the Financial Well-Being of U.S. Farm Operator Households—Historical Policy Context
- Farm Bill Policies—other than commodity titles
- Farmer Groups Identified in Farm Bill
- Other Important Policies

# The very smallest and the very largest farms are increasing in numbers



- Point farms decreased for first time in 2012, but the number with <\$10,000 in sales (inc. point farms) remained fairly constant
- Mid-sized farms (\$10,000-\$500,000) continued long decline
- Large farms (over \$1 million) increased only slightly (1%) between 2007-2012

# Considering the distribution of gross market value in constant \$, shows a dampened rate of concentration



- In nominal classes, the \$1 million class had 41% of value in 1997, compared to 52%.
- Only the very largest class is experiencing a greater share of value.
- While the number of farms with \$500,000 to \$1M are fairly stable, their share of value is declining slightly.

Source: Censuses of Agriculture, sales adjusted by the Producer Price Index for farm products

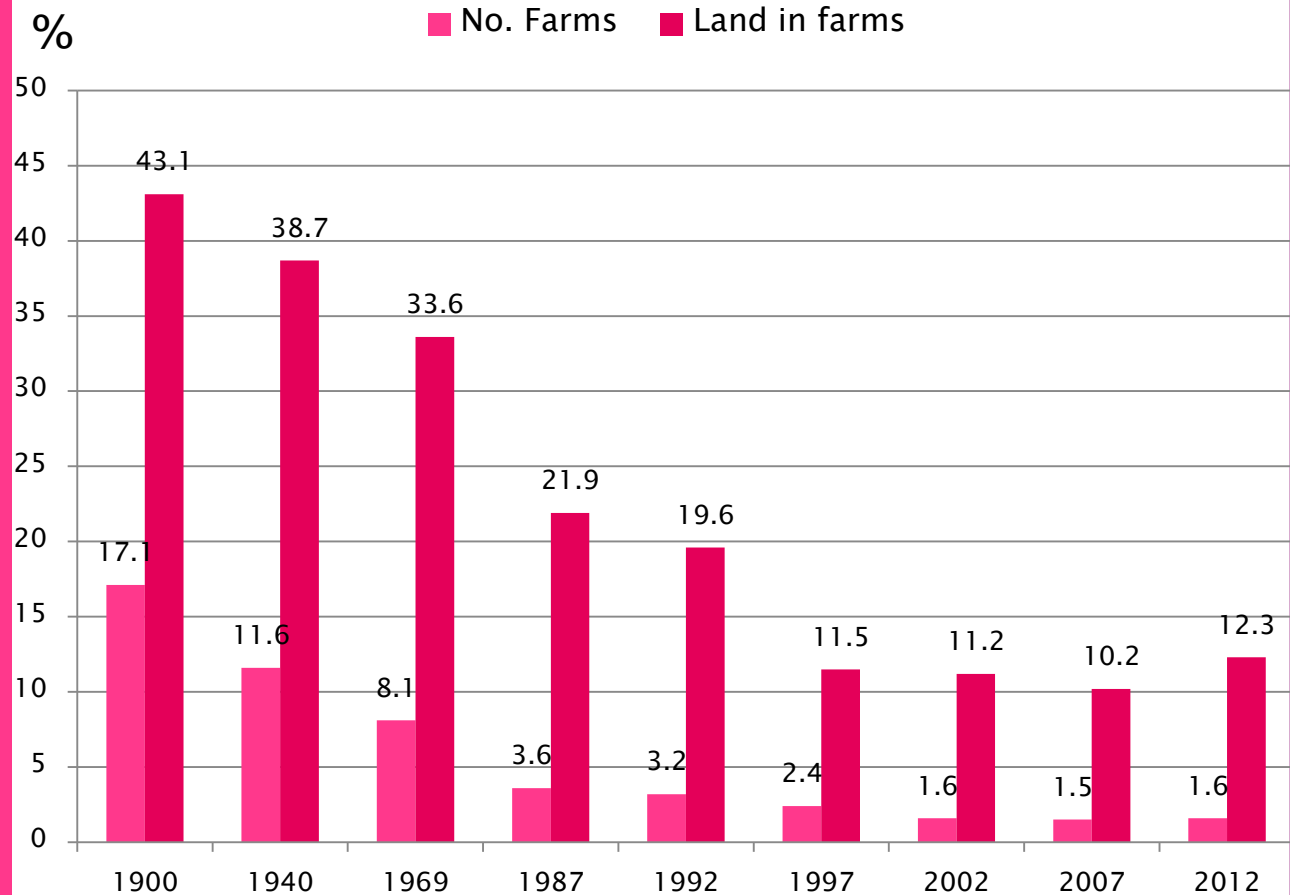


In 2012, 33,330 farms accounted for half of all product

Concentration seems to be stabilizing in past decade

**Sustainability:** Only 12% of acres are used to produce half of sales, compared to 43% in 1900.

**Conservation and carbon sequestration:** Policies must be directed at farms producing relatively small volume of sales.

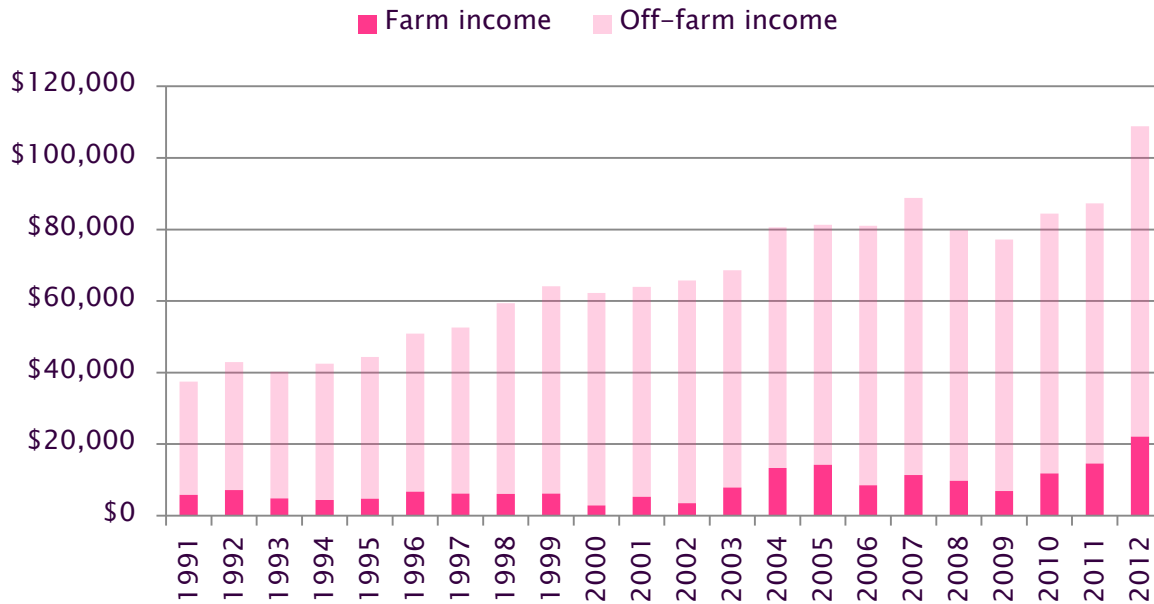


**Increasing concentration of production, share of farms and land accounting for 50% of total sales**

# Historically, policies were driven by the “farm problem” defined as low farm incomes

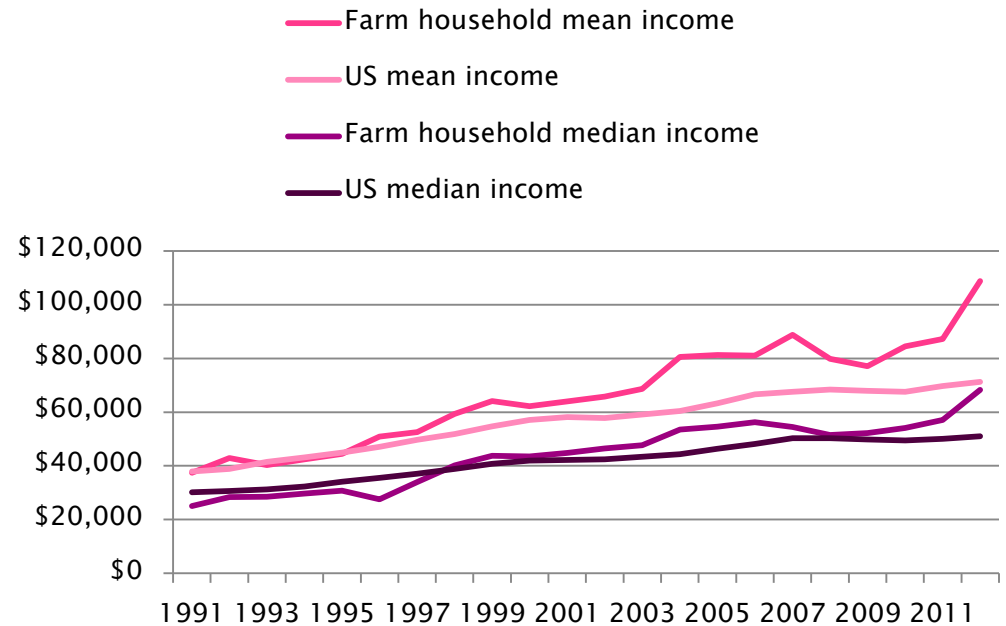


- The “average” farm operator household is financially more secure (*as measured by income and net worth*) than the average nonfarm household, other self-employed households, and rural households.
- Most farm households rely on their off-farm work activities for cash income and health insurance, and their assets are largely farm assets.
- The reliance on off-farm income is consistent with the growth in very small farms, counteracting the loss of midsized farms, to stabilize the number of farms.



## Farm Household Income: Sources and ...

...Comparison to US Households:  
 In 2013,  
 Mean U.S. = \$72,641  
 Mean farm = \$118,699



Sources: USDA, ERS, and Census Bureau.

# The majority of farm families have negative cash farm income, but...



- ...Most farm families rely on their off-farm income and returns from farming other than cash income help explain why so many small farms stay in operation
- A farm dwelling
- Asset appreciation if farm land is owned
- Benefits of tax opportunities for businesses
- Farm losses lower taxable income (AGI) when other sources of income are received
- Rural amenities and quality of life considerations



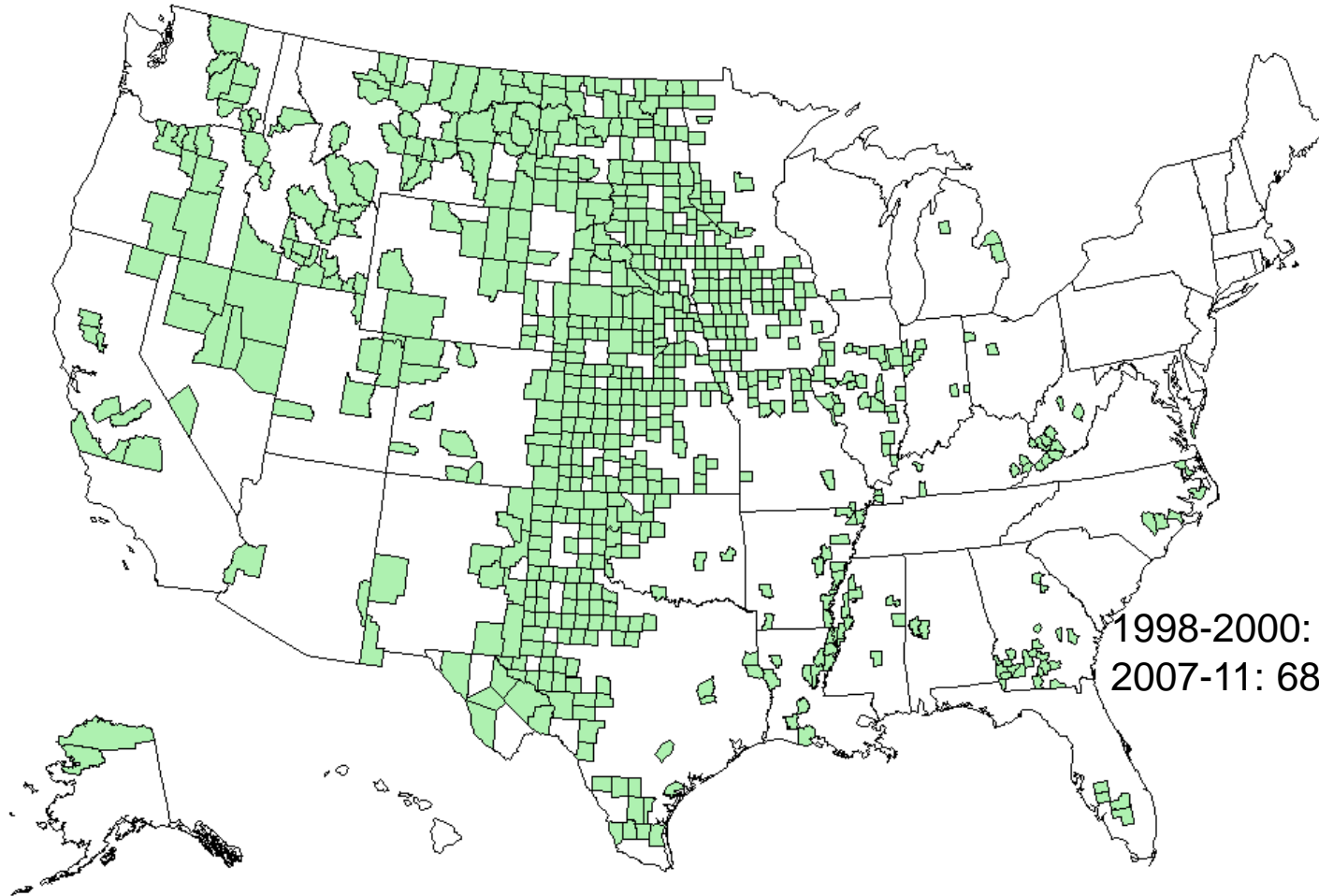
# Off-farm work: The equalizer



- Unlike for the general U.S. population, multiple job holding is common in farm families
- Half of operators and spouses (when present) worked off the farm
- 40% of operators said their major occupation was something other than farming
- Nearly two-thirds have either the operator, spouse, or both working off the farm
- The major source of health insurance for farm households is through an off-farm employer

# Few counties are dependent on the farm economy, offering local farm families more nonfarm opportunities

## Farming-dependent counties, 2007-2011



1998-2000: 440 counties  
2007-11: 689 counties

Farming dependent counties-either an annual average 15 percent or more of county earnings derived from farming during 2007-2011 or 15 percent or employed residents working in farm occupations in 2007-2011.

# Contemporary View of “farm problem”



- The low-income farm problem has generally been *solved*. *Success with unintended consequences?*
- Concerns about the relatively small numbers of low-income farm people addressed in narrowly defined policies, such as for “SDA” farmers
- A turning point in policies to target people—rather than commodities—to address various goals:
  - Beginning farmers
  - Local-food farmers
- ...And to address needs of diversified farms

# Importance of Crop Insurance: Whole Farm Revenue Protection



- Motivation: Traditional insurance programs are not available in every county and for every crop nor suited to diversified operations.
- Predecessor: AGR (Adjusted Gross Revenue Program) and AGR-lite. WFRP offered there.
- An insurance product targeted to diversified, specialty crop and organic farming operations for all crops and livestock grown, based on market prices and actual production history.
- Begins in 2015. Coverage levels from 50–85% of revenue. Up to \$8.5 mil. in insured revenue.
- Up to 80% premium subsidy.
- Have 5 consecutive years of farm tax history.

# Farm Bill Policies Directed at “Socially Disadvantaged Farmers”



- 2014 expanded these programs to include Veterans, most also directed at BFR
- Funding priority consideration and set-asides for eligible farmers in a variety of programs:
  - More favorable FSA loan programs, CRP transition incentive programs
  - NRCS' EQIP and CSP programs
  - 2501 Outreach programs
  - RD's Value added development grants (\$15–\$63 million)
  - NIFA's BFRDP



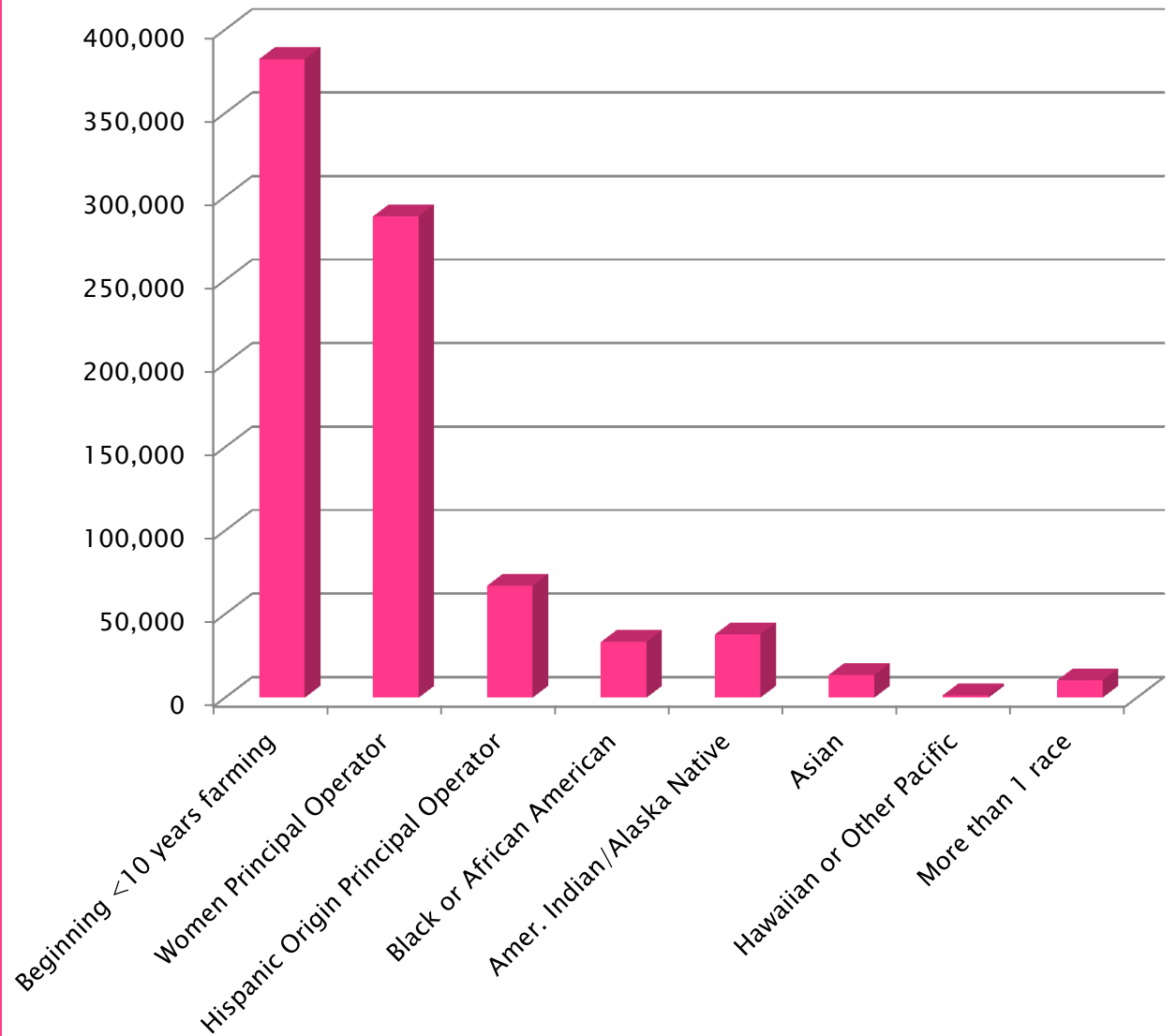
## No. of farms with diverse operator

Increasing since 2007: Hispanic (by 21%), those over 65 years old

Women-operated farms declined for the first time since 1982

Black-operated farms had been as much as 15% in 1920, now 1.5%. But up from a low in 1978.

Asian farmers stand out as highly profitable.



Source: 2012 Census of Agriculture. Based on principal operator of farm.

# Beginning Farmer and Rancher Programs

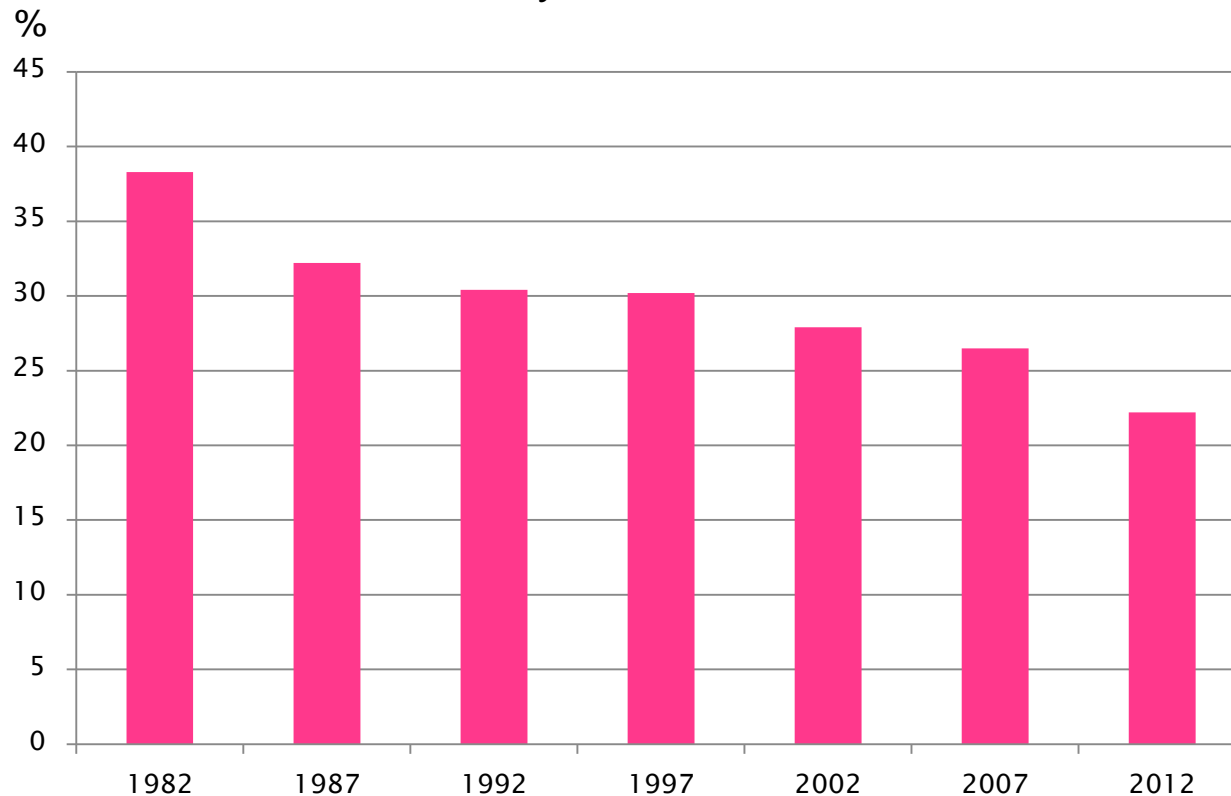


- Crop insurance, 10% reduction in premiums and alternatives for calculating APH
- Expands CRP-TIP to \$33 million
- Increases funding of BFRDP to \$100 million over 5 years
- Changes acreage qualification requirements for FSA loan programs, expanding eligible pool
- More favorable grazing of CRP lands allowance
- Makes permanent the Microloan program, more favorable terms—increases amounts to \$50,000

Although the number of principal operators has declined little in recent years, the share who are beginning farmers has been on the decline



The share of farms whose principal operator reported operating *this* farm for less than 10 years, 1982-2012

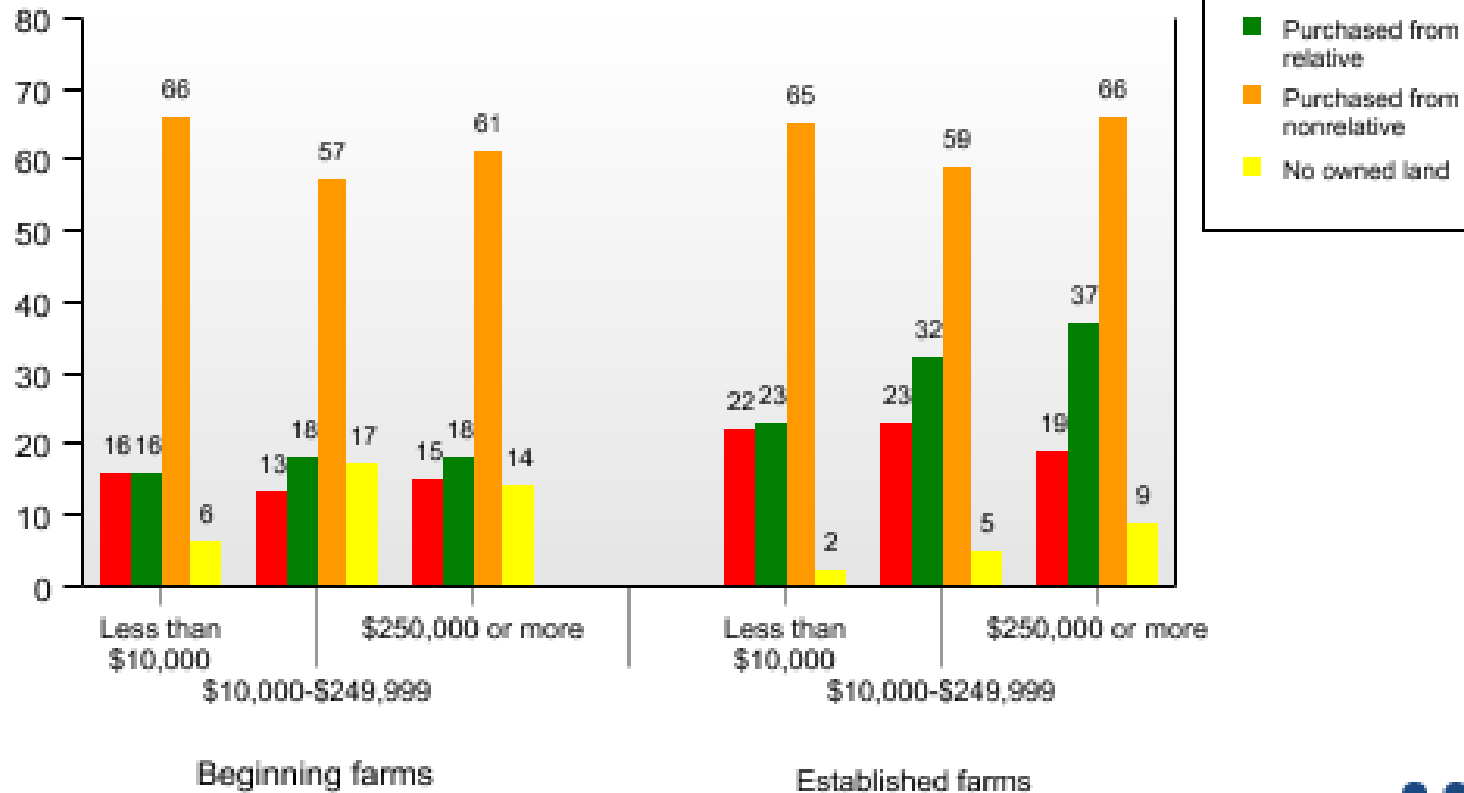


Source: Censuses of Agriculture



## Sources of land acquisition for beginning and established farms by farm size, 2010

Percent

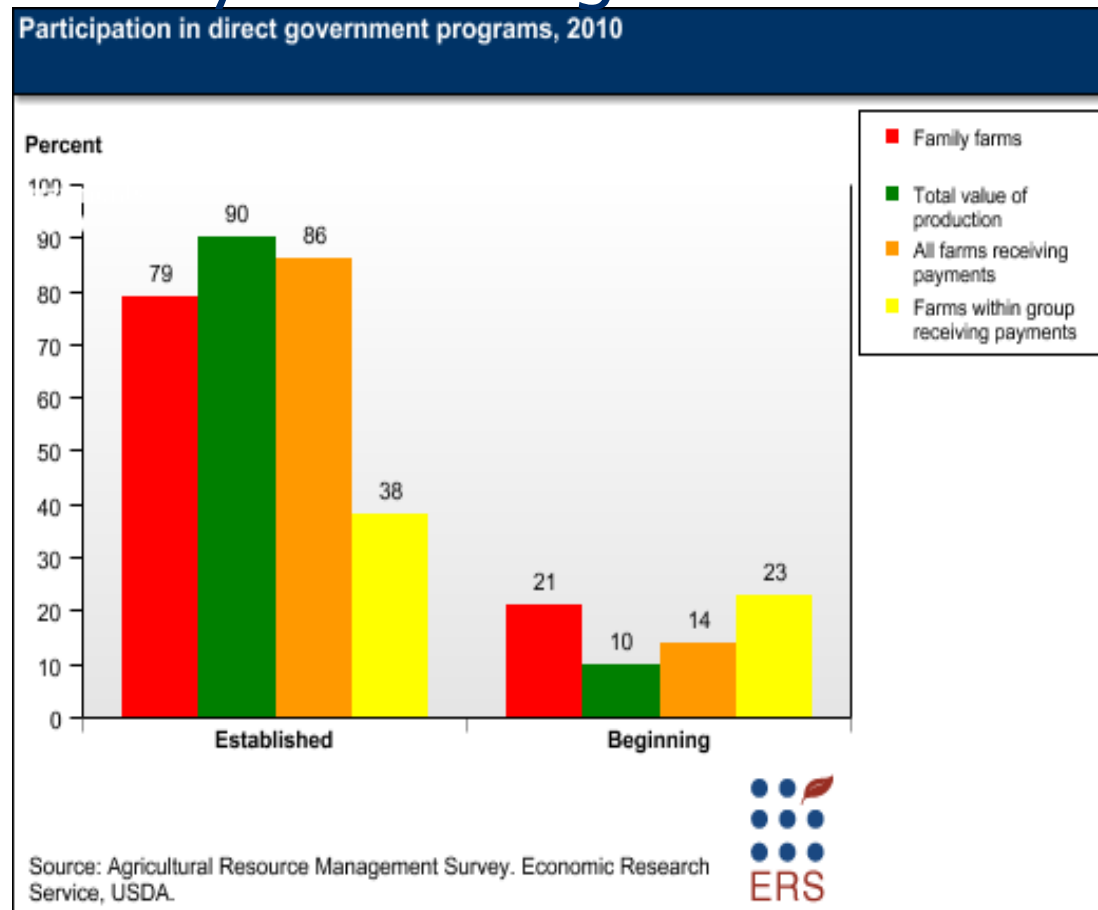


Source: Agricultural Resource Management Survey version 1. Economic Research Service, USDA.



Note: Farms may report more than one source of land acquisition

# Government Support for BFRs through Direct Payment Programs



- BFR are less likely to participate
- When they do participate, their average payment is less than EFRs'

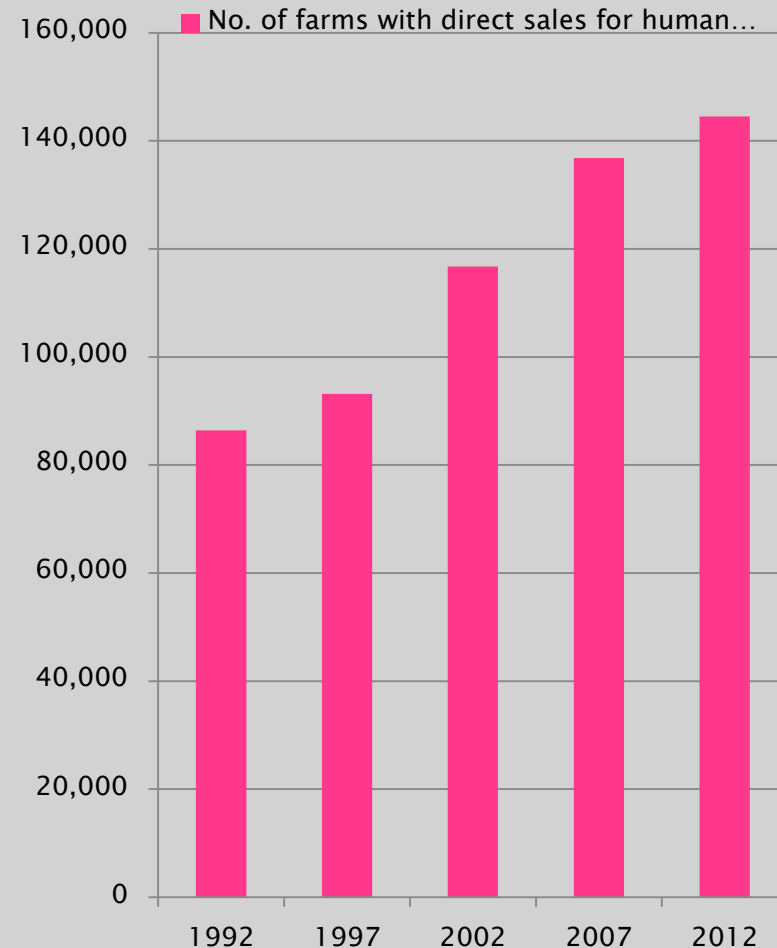
# Local and Regional Foods Programs



- Farmers Markets and Local Food Promotion Program—expanded scope, tripled funding of grants to nonprofits, local governments, etc. to help improve and expand local and regional food marketing
- Development of lending program
- Bonuses to SNAP participants from local produce purchases
- Specialty Crop Block Grants, Value-Added, etc.

# Direct marketing: An indicator of local foods

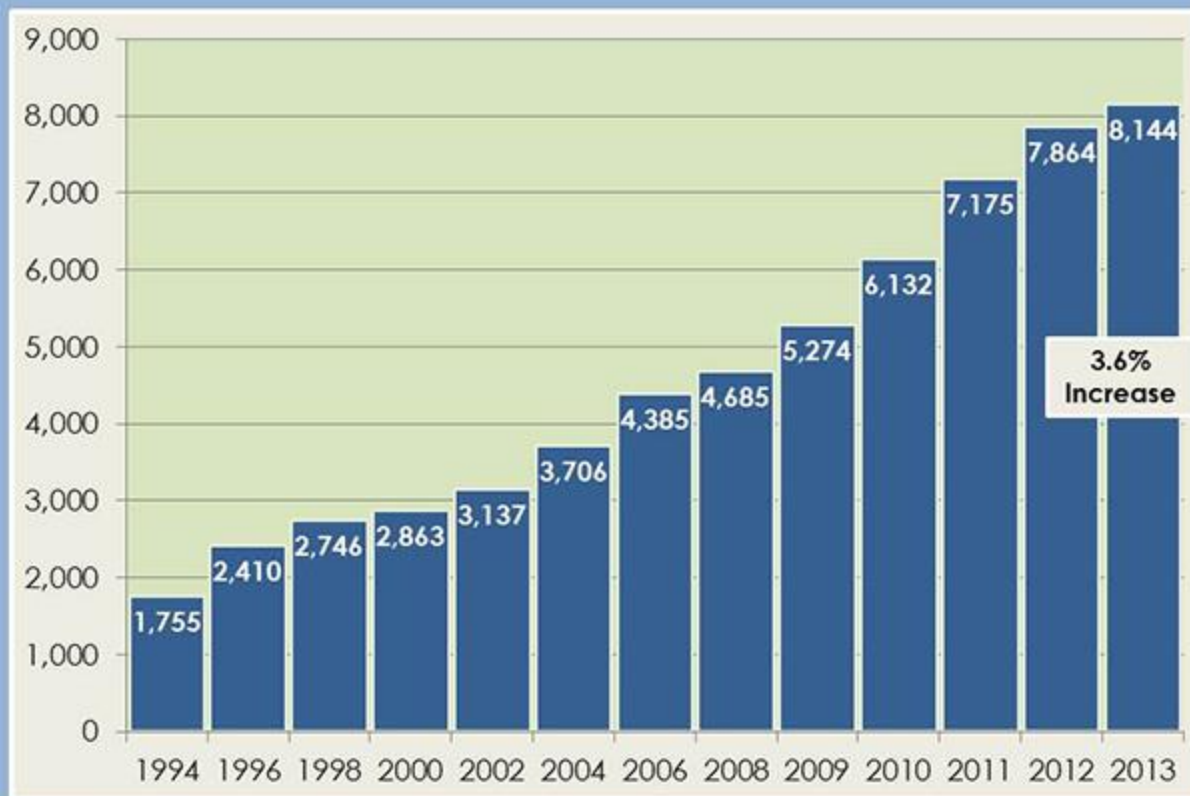
- The number of farms with direct sales (for human consumption) has increased steadily.
- There are 10 times more farms engaged in these sales, than organic sales.
- However, total organic sales are 1.4 times as great—and they are both under 1% of total sales.
- Direct marketing by farmers to final consumers is, by definition, constrained by the transaction.
- About 50,000 farms sell to retailer which sells direct to consumer, allowing higher sales per farm.



# Another indicator of the growth in local foods production and marketing



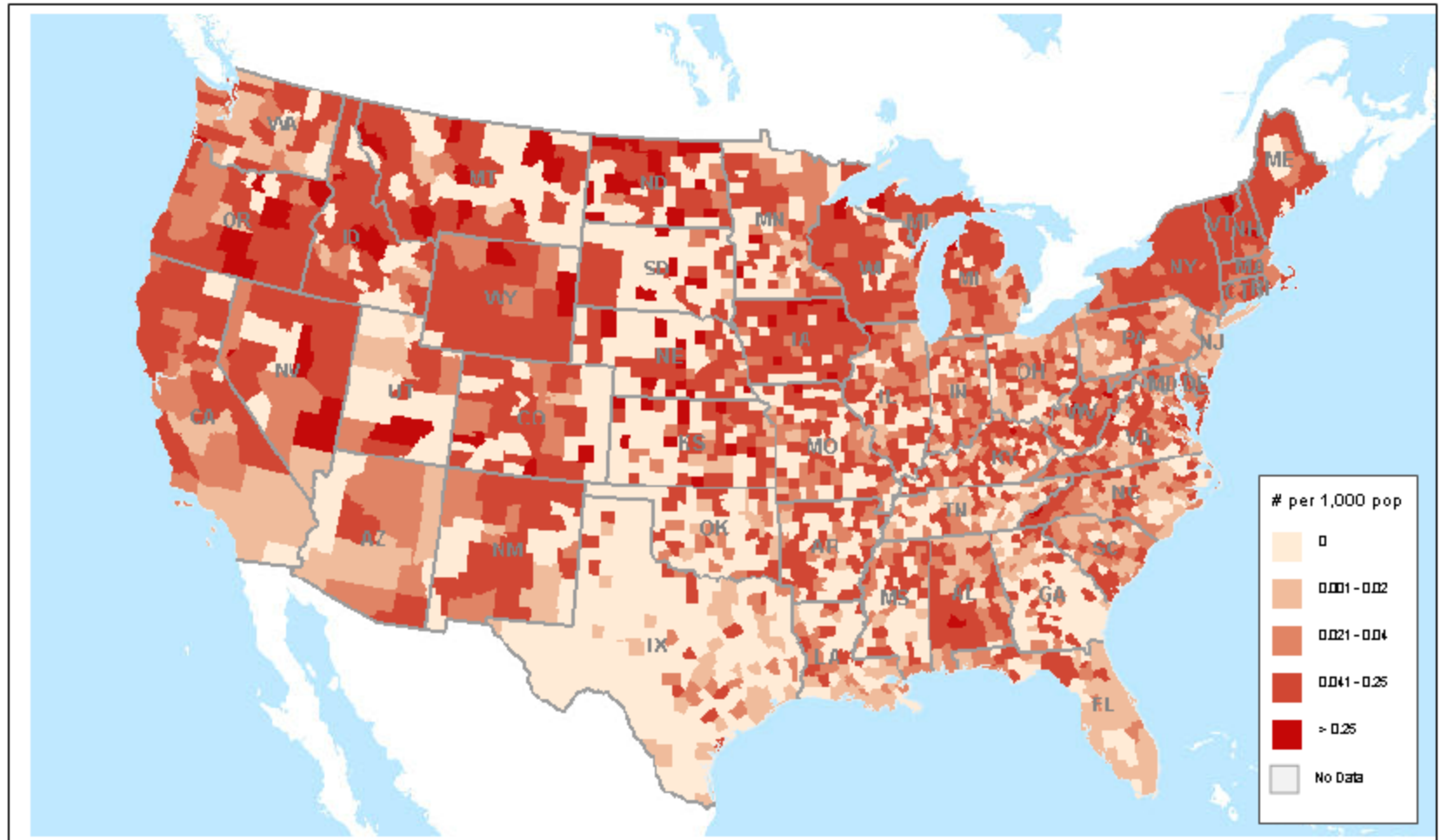
## National Count of Farmers Market Directory Listings



Source: USDA-AMS-Marketing Services Division

Farmers Market information is voluntary and self-reported to USDA-AMS-Marketing Services Division

# Farmers Markets per 1,000 population, 2012



Farmers' markets/1,000 pop, 2012

# Illinois Farm-to-School Programs



- 26% of districts participating in farm to school
- \$6 million spent locally
- 12 percent buy local fruits and vegetables
- 8 percent buy local milk
- Top 5: apples, tomatoes, milk, lettuce, berries
- 8% have school gardens
- Conducting student field trips to farms (11%)
- Integrating farm to school concepts into curriculum (7%)
- Promoting locally produced foods at school in general (6%)

# Future of developing local supply chain



- Regional food systems are at an early stage of development, e.g., supply chains are still developing and food safety regulations are being implemented. Federal farm policies that are responsive to the needs of local food farms are also evolving.
- While local markets are believed to provide farmers with a higher share of the food dollar, evidence shows that farms are more profitable when they sell through local intermediaries. Dependent on local supply chain.
- Keeping more of the dollar local contributes to the local economy, although evidence has not shown overwhelming large impacts. Brown, et al., EDQ.



## Other relevant farm bill policies, not commodity specific



- Rural Development—Importance of off-farm income
- Organic programs
- Research—Though hard to quantify on annual basis, returns to investment are large, e.g., Babcock (*Choices*, 2014) makes the point about the opportunity cost of spending on farm programs rather than R&D and Pardey, et al. (*Choices*, 2014) report that, while the 2014 Act increased R&D spending at a modest level, it is insignificant compared to two decades of decline in public ag R&D investment and at a time when our global competitors in agriculture are increasing their R&D investments and the challenges are greater than ever, e.g., pest management, climate uncertainty, etc.

# Other important pieces of legislation



- FSMA—still unfolding, most produce producers exempted
- Tax policies—encourages aging farmers to retain ownership of assets; encourages capital expenditures
- Farm Credit Act—major supplier of farm loans, e.g. \$9.6 bil. to BFR in 2011
- Affordable Care Act—affects farms both as an employer of hired labor, but especially farm household coverage

# Looking to the future



- Importance of R&D policies for long-term competitiveness
- Development of Regional Supply Chains
- Contemporary definition of “the” farm problem is budgetary
- Policies to address climate change, will be more inclusive of farms producing little ag product
- Will the nutrition–farm coalition hold? Will there be a next farm bill? If not, what will fill the void?