

# What Is A Farm? Economists Explore What The Definition Should Be



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For many years, the USDA has defined a farm as any place that could produce at least \$1000 worth of agricultural goods in a given year. So businesses designated as a farm have ranged from small operations with little or no production to operations with thousands of acres and thousands of head of livestock or poultry.

As a result, sales, expenses, off farm income, labor involved and the amount of government payments received also represent some of the attributes that vary considerably across farms producing similar products.

Using a broad definition means that a large share of land in agriculture gets accounted for and which may be important for conservation or estate transfer policies. However, the majority of farms included in this broad definition produce very little product and generate minimal sales while a relatively small number of very large farms produce the bulk of agricultural goods and sales in this country. So the statistics generated for the farm sector as a whole need to be carefully interpreted.

Some policymakers have tried to aim Federal agricultural programs at those farm households deemed actively engaged in agriculture. Recent proposals aimed at refining the definition of “actively engaged” are an attempt to target payments more precisely to their intended recipients.

One approach to better target payments to those intended would be a certain value of goods sold. But what would happen when a farmer produced or tried to produce large amounts of products but had little or no sales?

Another definition would be to measure the share of household income from farming. The more heavily the household relies on farming for income, the more actively engaged in farming the operation is likely to be. However the link between production and income is not always the case if costs are higher than expected, and bad weather, pest infestations or disease should reduce income. Large capital investment that leads to high depreciation expenses can also greatly lower income from farming, making this type of definition unreliable.

Another definition proposal uses off-farm income to help distinguish between operations where the farmer is actively engaged in farming from those operated as part time or hobby

farms. However small farms with low amounts of agricultural sales can also generate low off-farm income while households of large farms with high agricultural sales can also produce large amounts of off-farm income.

Actually most farm households generate substantial off-farm income, making it unclear whether or not this definition would allow policy makers and program managers to target their intended recipients.

USDA agricultural economists have recently reported on these possible definitions or “screens” to help target Federal aid to farmers. However, they recognized that certain subsections of the agricultural population such as beginning farmers, socially disadvantaged farmers, and limited resource farmers could be excluded from Federal assistance if any of the screens they explored were applied.

Another consideration in distributing Federal assistance is how to reimburse those who assist in meeting environmental goals.

Over time, U. S. agricultural production has been shifting to larger and larger farm operations, raising the question of how the screens that help identify actively engaged farms might affect family farms. Under current definitions, 97 percent of all farms are family farms generating 84 percent of all agricultural sales. However, some definitions that exclude operations above certain amounts of sales could exclude larger operations now defined as family farms.

The economists who have studied the issues mentioned here concluded that the current farm definition, while desirable for obtaining extensive national coverage can provide misleading characterizations of U. S. farms and farm structure. Some believe that current definitions are too inclusive making some producers and investors with marginal or limited involvement in agriculture eligible for Federal aid. Some longstanding federal legislation that allocates federal funds to states on the basis of farm numbers also makes changing farm definition a sensitive issue where some states may receive less federal assistance and other states might receive more.

The farm bill passed last year included provisions to limit payments for those individuals above certain adjusted gross incomes and those with a large proportion of off-farm income. Such policies complicate efforts to exclude those with farm operations and farm land investments who may not need the assistance to survive from those farms most in need to survive in these difficult economic times. Δ

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