

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

Memorandum

To: Members, Subcommittee on Agriculture, Energy, and Trade
From: Committee Staff
Date: March 20, 2017
Re: Hearing: “The Future of America’s Small Family Farms”

On Thursday, March 23, 2017 at 10:00 a.m., the Subcommittee on Agriculture, Energy, and Trade will meet in Room 2360 of the Rayburn House Office Building for the purpose of examining the state of America’s small family farms. The hearing will provide the Subcommittee an opportunity to review the economic contributions of small family farms to the health of the United States economy. This will include an assessment of historical and current trends in the industry, as well as the issues small family farms are confronting.

I. Historical Overview of the United States Agriculture Industry

With over 2.1 million farms that cover 41 percent of all land in the United States, agriculture remains an important component of the nation’s economy.¹ As time has progressed, new technological advances have moved what was once a labor intensive industry to one that is heavily dependent on machinery. In 1900, 41 percent of the workforce in the United States was employed in agriculture.² Today, that number is down to 1.4 percent.³

Another long term trend is farm consolidation and the increase in production from larger farms. Between 1982 and 2012, the midpoint acreage for cropland doubled.⁴ Also, from 1991 to 2015, production by farms with more than \$5 million in gross cash income increased from 13 to 23 percent.⁵ With larger farms playing a bigger role in agriculture, it would seem that smaller farms are disappearing.

¹ UNITED STATES DEP’T OF AGRICULTURE, 2012 CENSUS OF AGRICULTURE HIGHLIGHTS, FARMS AND FARMLAND 1 (2014), available at https://www.agcensus.usda.gov/Publications/2012/Online_Resources/Highlights/Farms_and_Farmland/Highlights_Farms_and_Farmland.pdf.

² UNITED STATES DEP’T OF AGRICULTURE, THE 20TH CENTURY TRANSFORMATION OF U.S. AGRICULTURE AND FARM POLICY 2 (2005), available at https://permanent.access.gpo.gov/LPS65988/eib3_1_.pdf.

³ <https://www.bls.gov/opub/mlr/2015/article/industry-employment-and-output-projections-to-2024.htm>.

⁴ Midpoint acreage is defined as the point where half of farms have less than that amount of land, and the other half have more. UNITED STATES DEP’T OF AGRICULTURE, AMERICA’S DIVERSE FAMILY FARMS 2016 EDITION 6 (2016) [hereinafter *Diverse Family Farms*], available at <https://www.ers.usda.gov/webdocs/publications/eib164/eib-164.pdf>.

⁵ *Id* at 5.

However, one aspect of the agriculture industry has remained constant over time – the overwhelming majority of farms are small family farms. The United States Department of Agriculture (USDA) Economic Research Service defines a small farm as having less than \$350,000 in gross cash farm income.⁶ Of the 2.1 million farms in the United States, almost 1.95 million, or 93 percent have less than \$500,000 in gross cash income.⁷ Since small family farms are such an important component of the nation’s economy, it is important to understand the status of small family farms and the issues they are facing.

II. Economic Overview of the Agriculture Industry

The agriculture industry is an important contributor to the nation’s economic output, employment, and exports. American farms produce almost 6 percent of the country’s total gross domestic product (GDP).⁸ However, through industries related to the farming such as food and beverage stores, food manufacturing, and other industries, farming’s indirect effect on GDP is much larger.⁹ There are an estimated 3.2 million farmers in the United States that operate the nation’s 2.1 million farms.¹⁰ Similar to economic output by the agriculture industry, there are an estimated 17.3 million jobs directly or indirectly related to agriculture, which is almost 10 percent of total United States employment.¹¹

Although the total trade deficit for the United States was \$45 billion at the end of 2016, agriculture is one of the few industries that had a significant trade surplus.¹² In 2016, the United States exported \$130 billion in agricultural products and had a net trade surplus in agriculture of \$16.6 billion.¹³ With 23 percent of raw farm products exported, and 33 percent of United States farm acres planted for export, international markets will continue to be a significant source of income and growth potential for farms in the United States.¹⁴

⁶ *Id.* at 3. The Small Business Administration (SBA) utilizes a different definition for the purposes of determining whether a small farm may qualify for special treatment in the sale of goods and services to the federal government, access to SBA guaranteed loans and other types of financial assistance, and obtaining technical advice through various SBA resource partners. Since the year 2000, the small business size standard for agricultural enterprises has been statutorily set at \$750,000 in annual receipts. 15 U.S.C. § 632(a)(1). However, legislation included in the National Defense Authorization Act for Fiscal Year 2017, strikes the \$750,000 statutory size standard and requires the SBA to establish size standards for agricultural enterprises through notice and comment rulemaking, as it does for all other industries. Pub. L. No. 114-38, § 1831 (2016).

⁷ USDA, HISTORICAL HIGHLIGHTS: 2012 AND EARLIER CENSUS YEARS (2012) [hereinafter 2012 and Earlier Census Years], available at

https://www.agcensus.usda.gov/Publications/2012/Full_Report/Volume_1,_Chapter_1_US/st99_1_001_001.pdf.

⁸ USDA, AG AND FOOD SECTORS AND THE ECONOMY [hereinafter Ag and Food Stats], available at <https://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/ag-and-food-sectors-and-the-economy.aspx>.

⁹ *Id.*

¹⁰ USDA, 2012 CENSUS HIGHLIGHTS, FARM DEMOGRAPHICS - U.S. FARMERS BY GENDER, AGE, RACE, ETHNICITY, AND MORE [hereinafter Farm Demographics], available at https://www.agcensus.usda.gov/Publications/2012/Online_Resources/Highlights/Farm_Demographics/. The 3.2 million farmers are comprised of: 2,109,303 principal operators (those primarily responsible for day-to-day operations); 928,151 second operators; and 142,620 third operators. The number of farmers decreased by 3.1 percent between 2007 and 2012.

¹¹ Ag and Food Stats, *supra* note 8.

¹² <https://www.bea.gov/newsreleases/international/trade/2017/trad1216.htm>.

¹³ USDA, OUTLOOK FOR U.S. AGRICULTURAL TRADE I (2016) [hereinafter Trade Outlook], available at <https://www.ers.usda.gov/webdocs/publications/aes97/aes-97.pdf?v=42704>.

¹⁴ <http://www.fb.org/newsroom/fast-facts>.

III. Projections for 2017 and Beyond

Looking to 2017 and ahead, the agriculture industry is expected to face significant headwinds. Net farm income peaked in 2013 at \$123.7 billion.¹⁵ In 2017, net farm income is expected to be \$62.3 billion.¹⁶ If that projection is correct, 2017 would be the fourth straight year of declining net farm income.¹⁷ Although expenses for farmers such as seed purchases, feed purchases, and fertilizer have decreased in recent years, prices for agricultural products significantly declined at the same time.¹⁸ Therefore, net farm income has suffered. Net farm income is expected to drop by 9 percent from 2016 to 2017.¹⁹ If it does, net farm income will have dropped by 50 percent since 2013.²⁰

Despite rising volumes in production and cheaper production expenses, the steep decline commodity prices is the primary reason net farm income has continued to decline.²¹ Comparing commodity prices between 2014 and the forecasted prices for 2017, cash receipts for rice will drop by 33 percent, receipts for wheat will drop by 45 percent, and receipts for corn will drop by 19 percent.²² On the livestock front, receipts for cattle will drop by 26 percent, receipts for hogs will drop by 32 percent, and receipts for milk will drop by 25 percent.²³

Although farm income is primarily based on sales of agricultural products, farm assets are expected to decline by 1.1 percent in 2017.²⁴ Farmland values, which account for roughly 84 percent of all farm assets, are expected to slightly decline by 0.3 percent.²⁵ However, the value of crops stored are expected to decline by 15.3 percent, and the value of machinery and motor vehicles held by farms are expected to decline by about 5 percent.²⁶ With decreasing net farm income, steep declines in commodity prices, and depreciating farm assets, it is vital to understand if these trends will continue beyond 2017.

According to longer term projections from the USDA, net cash income for farms is expected to decline through 2019 and remain steady from 2020-2026 at around \$65 billion.²⁷ The reduction in net cash income is expected primarily because of lower than anticipated prices

¹⁵ USDA, HIGHLIGHTS FROM THE FEBRUARY 2017 FARM INCOME FORECAST (2017), *available at* <https://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/highlights-from-the-farm-income-forecast/>.

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ *Id.*

²¹ USDA, INDICES OF FARM OUTPUT, INPUT, AND TOTAL FACTOR PRODUCTIVITY FOR THE UNITED STATES (2015), *available at* [https://www.ers.usda.gov/webdocs/DataFiles/Agricultural Productivity in the US 17966/table01.xlsx?v=42352](https://www.ers.usda.gov/webdocs/DataFiles/Agricultural%20Productivity%20in%20the%20US%2017966/table01.xlsx?v=42352).

²² The reductions in agricultural product receipts were calculated using the cash receipts from 2014 and the forecasted receipts from 2017 in real 2009 dollars. USDA, FARM INCOME AND WEALTH STATISTICS (2017), *available at* <https://data.ers.usda.gov/reports.aspx?ID=39625>.

²³ *Id.*

²⁴ USDA, U.S. FARM SECTOR FINANCIAL INDICATORS, 2011-2017 (2017), *available at* <https://www.ers.usda.gov/media/8961/farmsectorindicatorsfebruary2017.xlsx>.

²⁵ *Id.*

²⁶ *Id.*

²⁷ USDA, USDA AGRICULTURAL PROJECTIONS TO 2026, at 47 (2017), *available at* https://www.usda.gov/oce/commodity/projections/USDA_Agricultural_Projections_to_2026.pdf.

for beef, pork, and poultry.²⁸ In addition, after 2017, the USDA expects a rise in several agricultural production expenses including crude oil prices, interest rates, and inflation.²⁹ Increases in production expenses are expected to result in an increase in commodity prices to offset costs.³⁰ While many larger farms are able to weather lower prices, declining asset values, and increasing production expenses, these challenges are more difficult for small family farms due to economies of scale and fewer resources.

IV. State of Small Family Farms

The overwhelming majority of farms in the United States are small family farms. As previously noted, 93 percent of farms in the United States have gross cash income of less than \$500,000.³¹ Small family farms with gross cash income of less than \$350,000 operate 48.4 percent of all land farmed and generate 24 percent of the total value of agriculture production.³²

Even though the share of production has been shifting toward larger farms, small family farms continue to provide a significant amount of the nation's production of several agricultural products. In 2015, small family farms produced 57 percent of the nation's supply of poultry and eggs and 52 percent of the nation's supply of hay.³³ Small family farms also account for 40 percent of the nation's cattle inventory, 33 percent of total soybean production, and 24 percent of the production of hogs and pigs.³⁴

Operating profit margins for small family farms are significantly less than their larger counterparts.³⁵ Only 17 percent of small family farms have a low risk operating profit margin, while 42 percent of large farms are low risk.³⁶ A low risk operating profit margin is associated with lower financial risk, and increases a farm's ability to remain profitable during periods of lower commodity prices.³⁷ Conversely, 71 percent of small family farms are high risk, while 35 percent of large scale family farms are designated as high risk.³⁸ Of the high risk small family farms, most actually had a negative operating profit margin or experienced a net loss from farming.³⁹

While operating margins are a challenge for small family farms, smaller farms are at the forefront of growing sectors of the agriculture industry. They account for 58 percent of direct-to-consumer sales through farmers' markets and other community-supported agriculture

²⁸ *Id* at 47.

²⁹ *Id* at 47.

³⁰ *Id* at 47.

³¹ 2012 and Earlier Census Years, *supra* note 7.

³² Diverse Family Farms, *supra* note 4, at 4.

³³ *Id* at 4.

³⁴ USDA, SUMMARY BY FARM TYPOLOGY MEASURED BY GROSS CASH FARM 1 (2015) available at https://www.agcensus.usda.gov/Publications/2012/Online_Resources/Typology/typology13_us.pdf.

³⁵ Diverse Family Farms, *supra* note 4 at 8.

³⁶ A low risk operating profit margin (OPM) is defined by USDA as a profit margin more than 25 percent. The percentage of farms with a low risk OPM was calculated by multiplying the number of farms in each category by the percent of farms in that category with a low OPM. *Id* at 8.

³⁷ *Id* at 8.

³⁸ A high risk OPM is defined by USDA as a profit margin less than 10 percent. The percentage of farms with a high risk OPM was calculated by multiplying the number of farms in each category by the percent of farms in that category with a high risk OPM. *Id* at 8.

³⁹ *Id* at 8.

arrangements.⁴⁰ In a survey conducted by the Cornell Small Farms Program, farmers' markets and farm stands were the two most popular methods used by small family farms for direct marketing.⁴¹ The popularity of direct-to-consumer sales is reaffirmed by the fact that the number of farmers' markets increased by 76 percent between 2008 and 2014.⁴² Small family farms are also at the forefront of organic agriculture. With the organic industry growing by almost 300 percent between 2002 and 2016,⁴³ and small family farms accounting for almost 20 percent of total organic sales, there is significant growth potential for small family farms in organics.⁴⁴

V. Issues for Small Family Farms

As previously described, operating margins are thin for many small family farms. In addition to small profit margins, small family farms face a multitude of other issues. These include the aging of principal farm operators, tax burdens, growing regulatory burdens, and difficulty exporting to international markets.

The average age of farm operators has been steadily increasing for the past 30 years.⁴⁵ In 2012, the average principal farm operator was over the age of 58.⁴⁶ That same year, one third of all farm operators were over the age of 65, and only 6 percent of principal farm operators were under the age of 35.⁴⁷ Although there are younger operators of farms who are learning the business from the principal owner, the current tax code makes handing off farms to the next generation quite difficult.⁴⁸

Currently, tax rates as high as 40 percent can be collected on inherited assets over \$5.45 million through the estate tax.⁴⁹ Although the threshold appears generous, the capital intensive nature of farming and appreciation of land values result in many small family farms worth more than the threshold.⁵⁰ With an estimated 70 percent, or 400 million acres, of farmland expected to change hands by 2030, repealing the estate tax would ensure small family farms can continue to operate and be passed to the next generation.⁵¹

Regulations that adversely affect small family farms have steadily risen over the past few decades. Between 1970 and 2014, the amount of regulations relevant to the agriculture industry

⁴⁰ USDA, 2012 CENSUS OF AGRICULTURE HIGHLIGHTS, SMALL FAMILY FARMS 2 (2016) [hereinafter USDA 2012 Census], available at

https://www.agcensus.usda.gov/Publications/2012/Online_Resources/Highlights/SmallFamilyFarms.pdf.

⁴¹ CORNELL UNIVERSITY, 2014 NY SMALL FARM STATEWIDE SURVEY RESULTS 2 (2014), available at <http://smallfarms.cornell.edu/files/2012/03/Survey-Results-Statewide-2dfwbcd.docx>.

⁴² USDA, NEW DATA REFLECTS THE CONTINUED DEMAND FOR FARMERS MARKETS (2014), available at <https://www.usda.gov/wps/portal/usda/usdahome?contentid=2014/08/0167.xml>.

⁴³ USDA, USDA REPORTS RECORD GROWTH IN U.S. ORGANIC PRODUCERS (2016), available at <https://www.usda.gov/wps/portal/usda/usdahome?contentid=2016/04/0084.xml>.

⁴⁴ USDA 2012 Census, *supra* 40 at 2.

⁴⁵ USDA, 2012 CENSUS OF AGRICULTURE, PRELIMINARY HIGHLIGHTS, U.S. FARMS AND FARMERS 3 (2014), available at https://www.agcensus.usda.gov/Publications/2012/Preliminary_Report/Highlights.pdf.

⁴⁶ *Id* at 3.

⁴⁷ *Id* at 3.

⁴⁸ Farm Demographics, *supra* note 10.

⁴⁹ <http://www.fb.org/issues/tax-reform/estate-taxes/>.

⁵⁰ University of Vermont, The FARMLASTS Project 11 (2010), available at <https://www.uvm.edu/farmlasts/FarmLASTSResearchReport.pdf>.

⁵¹ *Id* at ii.

grew by 113 percent.⁵² Broken down by sector in the agriculture industry, regulations affecting poultry and egg production grew by 180 percent, regulations affecting vegetable and melon farming grew by almost 400 percent, and regulations affecting hog and pig farming grew by 740 percent.⁵³ Small family farms lack the resources and expertise to comply and understand these regulations. As a consequence, they are the ones who suffer the most when new regulations are implemented.

Export opportunities are vital for small family farms. Small livestock farms can maximize income through exporting. For instance, cuts of beef such as tongue and tripe have little value domestically, however, these cuts can be sold at a premium overseas.⁵⁴ For crop farmers, export markets are important to sustain prices and income.⁵⁵ However, small family farms frequently have difficulty navigating the process to export products.⁵⁶ Demand for agriculture products in the coming years is expected to increase outside the United States.⁵⁷ Therefore, if small family farms are to succeed in the coming years, export opportunities need to be fully available to small family farms.

VI. Conclusion

Small family farms remain an important component of the agriculture industry and make up an overwhelming amount of the farms in the United States. They also grow a significant percentage of crops that are vital to the nation's food supply. However, with net farm income falling over the past few years, it has become harder than ever to make a profit as a small family farm. Furthermore, issues such as tax burdens, regulatory burdens, and difficulty exporting increase costs and decrease income potential. By examining the impact small family farms have on the agriculture industry and identifying potential issues of small family farms, the Subcommittee hopes to further understand how policies can be developed that help small family farms continue to succeed.

⁵² MERCATUS CENTER, REGDATA 2.2, 1975-2014, RESTRICTIONS AND WORD COUNT BY 2-DIGIT NAICS INDUSTRY, available at https://s3.amazonaws.com/regdata-gold/regdata/2.2/20-08-2015/extracts/regdata_by_2-digit_industry.csv.

⁵³ MERCATUS CENTER, REGDATA 2.2, 1975-2014, RESTRICTIONS AND WORD COUNT BY 4-DIGIT NAICS INDUSTRY, available at https://s3.amazonaws.com/regdata-gold/regdata/2.2/20-08-2015/extracts/regdata_by_4-digit_industry.csv.

⁵⁴ NATIONAL CATTLEMAN'S BEEF ASSOCIATION, U.S. TRADE REPRESENTATIVE FROM KEYNOTES SPRING LEGISLATIVE CONFERENCE (2016), available at <http://www.beefusa.org/newsreleases1.aspx?NewsID=5719>.

⁵⁵ <https://www.ers.usda.gov/topics/international-markets-trade/us-agricultural-trade/>.

⁵⁶ UNITED STATES CONGRESS, JOINT ECONOMIC COMMITTEE, THE ECONOMIC CONTRIBUTION OF AMERICA'S FARMERS AND THE IMPORTANCE OF AGRICULTURAL EXPORTS 1 (2013), available at <https://www.jec.senate.gov/public/cache/files/266a0bf3-5142-4545-b806-ef9fd78b9c2f/jec-agriculture-report.pdf>.

⁵⁷ Trade Outlook, *supra* 13 at 1.