How the restructuring of America's farms threatens world food supplies

by Cynthia Parsons

Despite record surpluses in current production, the basic structure of American agriculture, both the most productive and most rapidly developing in the world, is changing in a way that could prove disastrous for the nation's food supply over the next five years. These changes, forced by Federal Reserve Chairman Paul Volcker's interest rates, the deregulation of transportation, and the skyrocketing of energy costs, are closing down the most productive and stable farms in the United States: the middle-sized family owned and operated farms. It is these farms that have been at the forefront in utilizing new techniques and technology, with the result that a U.S. farmer today produces 76 percent more on the same land his predecessor farmed a generation ago.

The critical factors threatening the family farm include an increasing proportion of farmers' income being earned off the farm itself, rising median ages of full-time farmers, and an increase in particularly smaller farms, which are either operated on a part-time, non-commercial basis, or just held

Figure 1

The growth of farm debt compared to the growth of gross and net farm income, 1972-82

(in billions of current dollars)

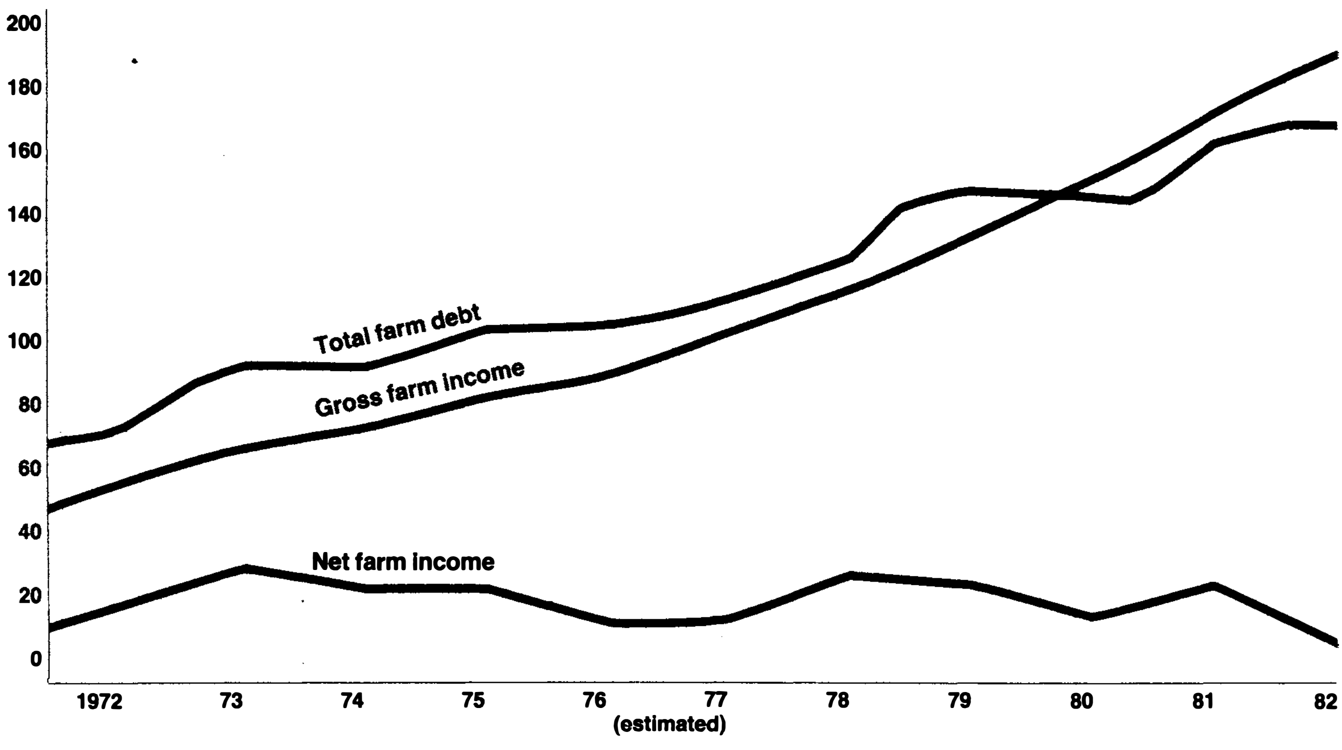
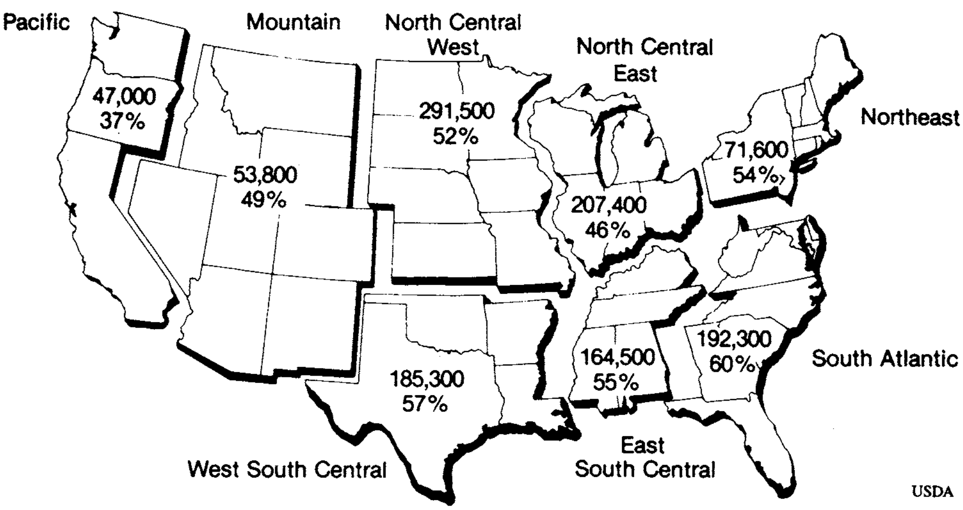


Figure 2

Number of Small Farms and Percentage of Total Farms



Large farms produced most of the nation's cotton, orchard crops, eggs, broilers, and turkeys. In 1980, large farms took in 69 percent of all cash receipts from agriculture.

Half of all corn and soybean farms and more than two thirds of all potato farms are small. Median acreage of small farms is less than half that of larger farms.

Only 31.7 percent of all farms took in 74 percent of the total cash receipts for farming in 1980, while 68.3 percent of farms took in just 25.6 percent of cash receipts, showing that the bulk of farm production is done on a small sector of total farm acreage in the United States.

as tax shelters or speculative investments in land. With the minimal figures available on the current situation, *EIR* has put the following picture together.

According to U.S. farm organizations, 100,000 farmers per year are leaving agriculture, at the fastest rate since the 1930s Great Depression. This is a five-fold increase since 1981. At the same time, production costs rose 8 percent in 1981, while total cash receipts for all agriculture increased by only 4 percent, meaning a 7 percent decrease in net farm income. Net farm income in 1981 was the lowest in 50 years. Only by increasing their off-farm income, and, worse, by cutting into production costs, have farmers been able to survive.

The middle-sized 600 to 2,000 acre family-owned farm, those which gross \$10,000-\$99,000 in sales per year, grow 60 percent of all U.S. agricultural produce. The largest 1 percent of these farms produce approximately 25 percent of the nation's food.

Until the recent period, family farms were generally very stable economic entities, able to continue producing at high rates through periods of economic fluctuations. Most owner-operated farms had low variable costs, particularly for labor, and high equity. The 1973 oil and fertilizer price increases, the 1979 high-interest rate policy, and the current fall in land values have totally undermined this capacity to continue production. Farmers' ability to borrow, even to cover operating costs, has been destroyed. Crop prices falling 50 percent below the cost of production, the collapse of rural infrastructure, making transport and storage costs prohibitive, and debt, have undermined use of fertilizer, replacement of equipment, and the farm family's living standard over the past decade. The 1 percent decline of land values in 1982, by undercutting farmers' collateral for operating loans, means that, following a decade of undermining productive capability, family farmers will have to abandon agriculture. As a Colorado wheat farmer was quoted recently, "People say that farmers who have owned their land for 20 years will survive, but heck, they're dying off at the same rate that young farmers are being forced off the land."

Who owns the farms?

Farmers who cannot continue to operate at a loss have been selling their land to banks and real estate companies, and leasing back just to keep farming. New York and Pennsylvania dairy farmers have led this trend. In Illinois, Continental Illinois Bank is buying up farmland and selling it to "investors" who use the operating losses of the farmers who lease the land as a tax write-off. Full-ownership of farms fell throughout the 1970s, from 62.5 percent of all income categories in 1969 to 57.5 percent in 1979. Part-ownership farmers who lease some proportion of farmland increased to 30.2 percent in 1979, from 24.9 percent average throughout the 1960s.

The U.S. Department of Agriculture's 1981 *Report on the Economic Well Being of Farms* states that the farms in the best economic shape, i.e., those able to continue production, are those which are fully owned and debt-free. The weakest are the tenant-operated farms with little equity, usually new farmers, and farmers with only 50 percent equity, whose land and equipment is heavily mortgaged.

Young career farmers are finding it increasingly difficult to even enter the field. The Farm Home Administration, the agricultural lender of last resort, has essentially stopped funding new farmers. As of September, the FmHA is "dealing with" the problem of oversupply in dairy farming by cutting off any funding for new farmers in the field. "The FmHA will finance only those situations where a son may be coming into partnership or taking over a family operation and where the expansion of an existing operation is critically needed to maintain adequate income for the family," stated FmHA Administrator Charles Shuman. "We've taken similar steps in the past as far as the broiler industry is concerned, and I'm sure there are other examples for the agency."

Currently, 4 percent of all farm land changes hands each year. Sixty-two percent of these sales are to farmers who already operate farms, 14 percent to landlords and 15 to tenant farmers. Only 15-20 percent of these sales, or less than 1 percent of land sales in the United States, are to entry-level farmers. The USDA predicts that the total number of new farmers under the age of 35 will shrink from 377,000 in 1978 to 233,000 in 2000.

Off-farm income

What the farmer and his family have been able to earn off their farm has consistently played an important role in sustaining family farms in periods of low prices. Until recently, this was a more important factor in sustaining the small farmer than the middle-sized one. But in 1981, net off-farm income for farmers in the large $40,000 plus annual sales category exceeded on-farm income for the first time. Even the largest-sales farms show a consistent increase in off-farm income as compared to on-farm income since 1979, the year Paul Volcker instituted his high interest rates. For the $40,000-plus group of farmers, 1981 on-farm income was half that of off-farm income, a 51 percent decrease from the previous year. (see Fig. 5)

Off-farm income as a percent of total farm income has increased rapidly over the past 30 years. Average off-farm income rose to 30.8 percent of total income for all farms in 1950, to 48.1 percent in 1970. By 1981, off-farm income was 55 percent of the total.

With 71.5 percent of all farms recording a loss on their income from agriculture, this trend will have to continue. Without detailed analysis, it is clear that loss of farmers' production time must become a serious factor in the productive capacity.

With the decreased ability to invest in new equipment, this loss of production will be multiplied. Smaller farms have depended on off-farm income to continue to produce. The combination of jobs which range from teaching to running small businesses, with a heavier use of time- and labor-saving devices than larger farms, has meant that farms in the category of $20,000-or-less gross annual sales, or over 70 percent of all farms, have been able to continue producing. This group, facing the economic collapse of entire agricultural regions, could be forced to stop producing in the coming years.

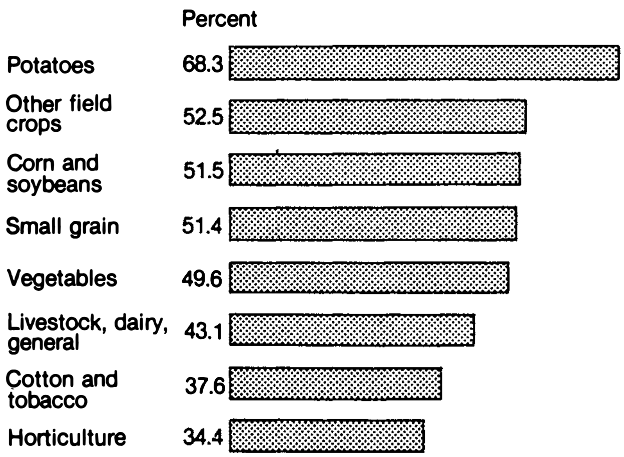
Changed definition of a farm

Since the early 1970s, the legal definition of a farm has changed several times, to the extent that the Department of Agriculture (USDA) was able to publish figures in 1981 showing an increase of 8,000 farms in the United States, the first increase in nearly 40 years. But this figure actually masks the real situation, which is that the middle-sized farms are disappearing. To date, most of the land in these farms is remaining in production, as it is either bought up by larger farms, leased back by the farmer forced to sell due to financial collapse, or bought up as part-time small farms.

"If these trends continue," stated USDA analyst Donn

Figure 3

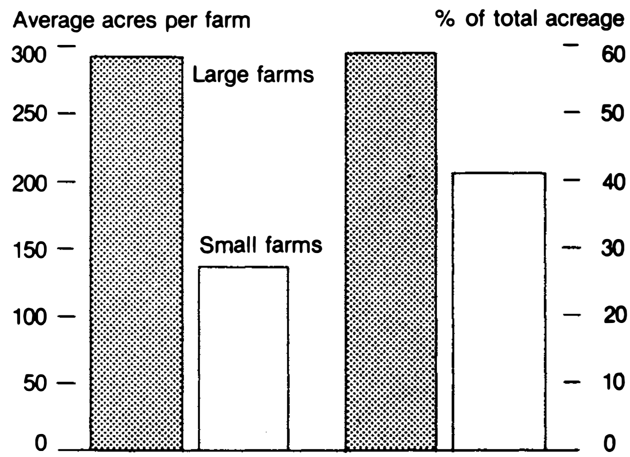
Small Farms as a Percentage of Total Farms



Small farms are those on which (1) total family income does not exceed the median income of nonmetro families in that State, (2) farming is a significant source of income, and (3) most of the labor and management is provided by the family. 1979 data. USDA

Figure 4

Acreage in Small and Large Farms



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Reimund this spring, "U.S. agriculture will be increasingly characterized by two major classes of farms—large farms producing the nation's output, and small, part-time farms producing little and serving primarily as rural residences. Many of these, particularly those in the lowest sales class, aren't farms at all in the traditional sense. . . . They are primarily rural residences with the minimum amount of agricultural production, enough to get them classified as farms."

The changing definition of a farm is actually a cover for another trend in U.S. land ownership: land being held for tax shelters or speculation. A spot-check of various regions showed that the so-called increase in farms was chiefly in the $10,000-a-year gross sales category, non-commercial ranches or "hobby farms."

The real situation in farming is shown by the number of farmers leaving the sector in the recent period, not the purported reversal of loss of farms. Although recent USDA figures indicated that the rate of the decline in numbers of farms has been decreasing since 1965, and currently has become an actual increase, recent reliable figures from the state of Ohio show a different trend.

The Ohio State Director of Agriculture announced in July that usually 500 farmers a year left the farm in that state, but that it would reach 2,000 farmers in 1982. If this figure can be generalized, taking into account that a number of states have much smaller farm populations, the national figure comes close to the 100,000 per year leaving farms cited by the national farm organizations.

Fig. 5

Increasing off-farm income as compared to on-farm income, 1979-81

Farms with annual sales of	Net on-farm income	Net off-farm income	Number of farms	Percent of total farms
		1979		
$500,000+			22,000	.9
200,000+			77,000	3.1
100,000+	$81,610	$11,643	167,000	6.9
40,000+	11,954	7,334	377,000	15.5
20,000+	3,365	8,721	283,000	11.6
10,000+	−1,105	12,028	288,000	11.9
5,000+	47	15,627	327,000	13.5
2,500+	−840	18,906	326,000	13.4
less than 2,500	−851	19,030	563,000	23.2
		1980		
$500,000+			24,000	1.0
200,000+			84,000	3.4
100,000+	$76,692	$12,840	180,000	7.4
40,000+	7,835	7,959	389,000	16.0
20,000+	1,177	9,484	279,000	11.5
10,000+	−13	13,080	286,000	11.8
5,000+	−508	17,102	332,000	13.7
2,500+	−1,104	2,657	329,000	13.6
less than 2,500	−910	2,780	525,000	21.6
		1981		
$500,000+			25,000	1.0
200,000+			87,000	3.6
100,000+	$66,790	$13,772	186,000	7.6
40,000+	3,816	8,543	396,000	16.3
20,000+	−880	10,165	278,000	11.4
10,000+	−1,022	14,021	286,000	11.7
5,000+	−988	18,418	335,000	13.8
2,500+	−1,389	22,220	332,000	13.6
less than 2,500	−982	22,425	511,000	21.0