

Defining Limited-Resource Farms— Past, Present, and Future

Perry and Ahearn (1993) first identified limited-resource farmers for the Economic Research Service (ERS)—based on 1988 data—although they used the term “limited-opportunity” rather than “limited-resource.” They defined limited-resource farms using three criteria:

- Farm sales less than \$100,000
- Farm assets less than \$150,000
- Operator household income less than the poverty level

When the Economic Research Service created its farm classification system in 1998, it incorporated the Perry-Ahearn definition, with one modification. Family income was required to be below \$20,000 rather than the poverty level. Using a \$20,000 cutoff rather than the poverty level avoided the necessity of knowing family size. Family size is not collected every year by the Agricultural Resource Management Survey (ARMS), but it is needed to assign the appropriate poverty level to a family (Hoppe, 2001, p. 4).

The Current Definition

In 2003, a new definition of limited-resource farms was developed by an interagency committee to provide a consistent definition across all USDA agencies (U.S. National Archives and Records Admn., 2003, p. 32520). This USDA-wide definition is currently used in the ERS farm classification. The limits on sales and household income are similar under the former and current definitions (see box, “Defining Limited-Resource Farms”). Both definitions use a \$100,000 cutoff for farm sales, although the current definition indexes the cutoff to reflect price changes. The current definition also requires 2 years of low sales, rather than 1. The cutoff for household income is also set low in both definitions, but—as in the case of sales—2 years of low income are required under the current definition.

The main difference between the two definitions is the absence of a limit on farm assets in the current definition. An asset limitation was not used because the assets held by individual farmers are difficult to verify on applications to participate in USDA programs targeted at limited-resource farmers. Instead, the requirement for a second year of low income—which is easier to verify than low assets—was added as an indication of persistently low income.

Differences

The limited-resource farms identified under the two definitions are different in some respects (app. table 1). Although the level of household income is similar under the two definitions, median farm assets are nearly three times

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Criterion	Former definition in the ERS farm classification	Current definition (USDA-wide)
Sales	Less than \$100,000, with no indexing	Low sales in both the current and previous year. Low sales is defined as less than \$100,000 in 2003 and indexed thereafter
Farm assets	Less than \$150,000	No limits
Operator household income	Less than \$20,000 in the current year	Low in both the current and previous year. Income is low if it is less than the poverty level for a family of four with two children—\$19,157 in 2004—or if it is less than half the county median household income

Appendix table 1

Characteristics of limited-resource farmers under the former and current definitions, 2004

Item	Former definition	Current definition
<i>Number</i>		
Farms and operator households	74,819	197,734
<i>Dollars per household (or farm)</i>		
Median household income (2004)	9,900	10,300
Median farm assets	87,614	244,609
Median household net worth	109,463	271,280
<i>Years</i>		
Average age	61	65

Source: USDA, ERS, 2004 ARMS.

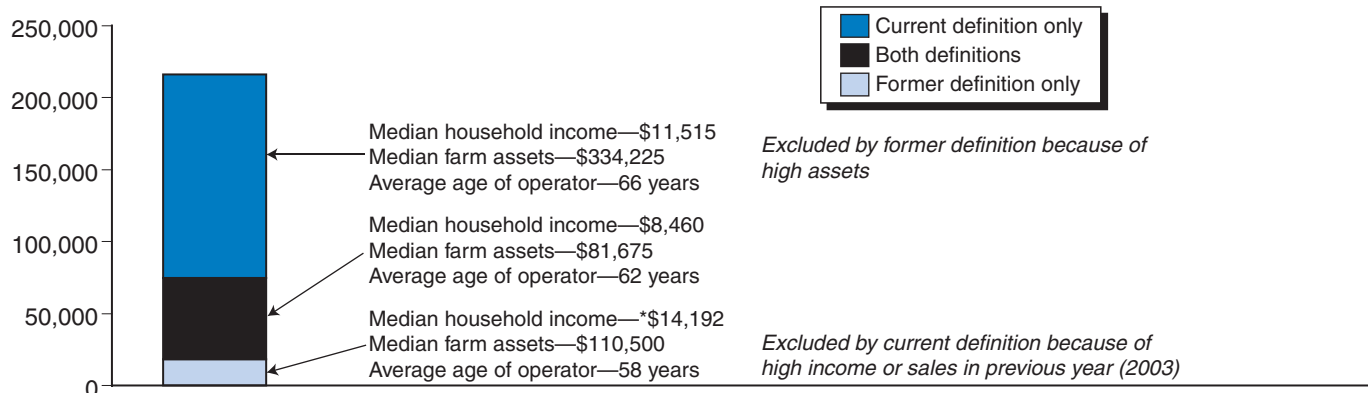
as high under the current definition (\$244,600) as under the former definition (\$87,600). Similarly, the net worth of farm households is nearly three times higher under the current definition. Operators under the current definition also tend to be older: 65, on average, under the current definition versus 61 under the former definition.

A total of 197,700 farms were classified in 2004 as limited-resource farms under the current definition. This includes 56,300 farms that were also classified as limited-resource under the former definition (app. fig. 1). The 141,400

Limited-resource farms under the former and current definitions, 2004

Limited-resource farms added by the current definition have more assets and older operators

Number of limited-resource farms



* = Standard error is between 25 percent and 50 percent of the estimate.

Source: USDA, Economic Research Service, 2004 Agricultural Resource Management Survey, Phase III.

farms added under the new definition have a higher level of farm assets—a median of \$334,200—compared with farms classified as limited-resource under the former definition. Operators of the added farms also tend to be older.

Alternate Definitions

The current limited-resource definition focuses on low-sales farms operated by farmers with low household income over a 2-year period. Different criteria could be considered, at least for research purposes. For example, we could use a definition that included an asset constraint, such as the previous \$150,000 limit. We may want to even consider an asset constraint that changes over time—such as one-half of the median assets of all small farms—to reflect increases in the value of farmland and other assets used in farming. Different sales constraints might also be tested.

In future *Family Farm Reports*, ERS will continue to provide information about limited-resource farms as defined currently because that definition is used by USDA agencies to administer programs. We will also explore alternate definitions to identify other groups of limited-resource farms. To facilitate comparing the USDA-wide current definition with alternate definitions, the limited-resource category will be dropped from the ERS farm classification system in future reports. However, there will be more information on counts and characteristics of limited-resource farmers under different definitions.