

## Farming for Profit and Quality of Life<sup>i</sup>

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For decades, American farmers have been told to either get bigger or get out of agriculture. More recently, farmers have been encouraged to sign contracts with large agribusiness corporations as a means of survival and success. Contrary to conventional wisdom, most farmers haven't followed the advice of the experts. Most farmers have not gotten bigger, they haven't given in to corporate contracting, and they haven't gotten out of farming. Certainly, the very large farms and contract operations have grown in numbers while the number of mid-sized independent family farms has shrunk. Nonetheless, the vast majority of America's farmers are still independent and their farms are still small. Somehow, hundreds of thousands of small farmers have managed to succeed while defying the advice of the experts. They didn't get big, they didn't give in, and they didn't go broke. Instead, they have found ways to survive and succeed, if not prosper. For years, we have been told that small independent family farms were “a thing of the past.” Today, they seem to be the only type of farm that has much of a future.

USDA statistics for 2004 indicate that 84% of all U.S. farms generated gross sales of less than \$100,000 per year – small farms, by most definitions.<sup>1</sup> Admittedly, some of those small farms might be more accurately identified as “hobby farms” or rural residences, but many others are not. Farmers were asked to list their “primary occupation” – the occupation at which they spend more than half of their working hours. Small farmers are more likely than large farmers to have some occupation other than farming and also are more likely to be retired. But even when considering only those who are not retired and whose “primary occupation” is farming, well over half of all U.S. farms had less than \$100,000 in annual gross sales in 2004. Nearly half had gross sales of less than \$50,000 per year – classified by USDA as “non-commercial farms.” These are serious farming operations, not just hobbies or rural residences. They are “real farms,” and most “real farms” in the United States are still small.

Most of the farmers who got out of farming were the mid-sized, full-time family farmers who followed the experts' advice to get bigger or get out. Some got out voluntarily, selling their land to neighbors who wanted to get bigger. Others didn't leave farming by choice; they were forced out of farming. The first to fail during the farm financial crisis of the 1980s were farmers who had borrowed heavily at high interest rates during the 1970s in an attempt to gain economic efficiency through large-scale, specialized production. Those farmers who resisted the urge to expand, who diversified to cut costs and improve profits, or relied on off-farm income to supplement rising costs of living, weathered the crisis far better. Many smaller farms became “low input” farms and others became part-time family farms. Many people with small farms have survived the reoccurring crises in agriculture while their neighbors on larger farms have failed. They didn't get bigger and they didn't get out.

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Today, the mid-sized farmers who survived the farm crisis of the 80s and economic slump of 90s are being told that they will have to become contract producers for some agribusiness corporation if they expect to survive. They are told they will have to find their place in the global corporate “food chain” in order to have access to the technology, the capital, and the markets that they will need to survive. They build large-scale contract confinement animal feeding operations or grow genetically modified crops under some corporate licensing agreement. Under such arrangements, the corporations make all of the important decisions and make all the real profits. Farmers become investors, building superintendents, or tractors drivers and it is questionable whether they have actually stayed in *farming* or have abandoned *real farming* for agribusiness.

The industrialization and corporatization of American agriculture has left the future of *real farming* in peril. Until a decade or so ago, few questioned the ability of American farmers to compete with farmers anywhere in the world, even if it did mean ever-lower prices and ever-tighter profit margins. We were the global leaders in agriculture. We had the most highly educated and efficient farmers in the world using the latest production technologies to cultivate the best agricultural land in the world. In recent years, however, the U.S. share of global agricultural exports has plummeted. For the past two years, the United States has hovered on the brink of a negative trade balance in agricultural and food products, with the value of agricultural exports barely exceeding value of imports. If the value of the U.S. dollar had not dropped by around 50% in relation to the Euro and other major currencies during this time, the U.S. quite likely would be a net food importer.

Abundant undeveloped land and favorable climates, coupled with low-cost labor, have given Argentina and Brazil a clear competitive advantage over the United States in crop production. U.S. livestock producers face strong competition from Canada and Mexico in domestic livestock and meat markets, causing some livestock producers to question the wisdom of the North American Free Trade Agreement. Agricultural corporations periodically threaten to move their large-scale confinement animal feeding operations to Mexico or elsewhere, to avoid growing environmental and animal welfare concerns, threatening the traditional U.S. competitive advantage in production of grain-fed meat and poultry. South America and Australia are lower cost producers of range cattle, and countries such as Mexico and China could well gain competitive advantages in restructured global pork and poultry industries.

Some farmers are betting that ethanol will be the savior of U.S. agriculture. With government subsidies and protective tariffs of more than a dollar a gallon to protect U.S. farmers from foreign competition, ethanol plants have begun to spring up all across rural America. In early 2006, the Renewable Fuels Association reported 95 ethanol plants already in operation – 46 farmer-owned – capable of producing four billion gallons of ethanol a year, with another 31 plants under construction.<sup>2</sup> USDA estimated that ethanol claimed about one-fifth of the 2005 corn crop, one-third of the 2006 crop. Construction seems to have slowed a bit in 2007, but was previously projected to claim one-half of all corn grown in the United States by 2008.

However, critics point out that ethanol is very energy inefficient in comparison to other alternative energy sources. Some experts claim the amount of “old” fossil energy required to grow the corn and process it into ethanol is greater than the amount of “new” energy in the ethanol

produced. Others claim a new energy out/old energy ration is more like 1.5- or 2.0-to-one. Regardless, several of the new fossil energy alternatives are much more abundant and energy efficient than are biofuels. Tar sands, gasification of coal, and oil shale are about four times as *net energy* efficient as biofuels and the gap is more likely to widen rather than narrow in the future. These other sources all require far less “old energy” to create “new energy,” with net energy ratios in the 8-to-one range compared with biofuels ratios of at best 2-to-one. Development of the other sources has been slower because it takes far larger investments and far longer periods of time to build the infrastructure necessary to bring these sources into production. More than one-hundred ethanol plants have been built since latest energy boom began, while the first oil from the tar sands of Alberta, Canada is just beginning to flow into the United States. Environmental challenges of tar sands have not dampened the enthusiasm of investors in alternative sources of fossil energy, which means they probably know more about the political realities of energy production than the rest of us.

As energy becomes the limiting factor of economic development, the dollar and cent prices of energy from different sources will be determined by their energy efficiency. At that point, bioenergy from agriculture may well be the most costly energy in the marketplace and demand for biofuels crops will likely drop like a rock. Even if there is a future for ethanol, it's doubtful that U.S. drivers and taxpayers will be willing to continue giving U.S. farmer a dollar-a-gallon subsidy, just so they can compete with foreign producers of fuel crops.

In the face of the growing global challenge to the profitability of America's largest farming operations how can America's *small farms* possibly expect to make the profits needed for a desirable quality of farm life? The best answers to this question can be found by looking at small farms that are already making profits, surviving, and even prospering, with very little help or encouragement from the government or anyone else. These successful small farmers may claim the label of organic, low-input, alternative, biodynamic, holistic, permaculture, practical farmers, innovative farmers, or just plain family farmers, but they are all farming by the same set of principles and for the same basic purpose. They are trying to build farming systems that are ecologically sound and socially responsible in order to sustain farm profitability and a desirable quality of farm life. They are creating a new permanent, sustainable American agriculture. They are the New American Farmers.<sup>3</sup>

Certainly, not all *new American farms* are small, but even the larger sustainable farms tend to smaller and more diverse than are their conventional counterparts producing the same commodities. For example, a *sustainable* cattle ranch is likely to be far larger than a *conventional* berry farm. But a *sustainable* cattle ranch or a *sustainable* berry farm is likely to be smaller than a *conventional* cattle ranch or berry farm that is managed strictly for the economic bottom line. Sustainable farming requires more labor and management per acre and dollar invested than does conventional industrial farming, meaning more farmers and more farms.

Large farms make more money by managing more land, investing more money, and hiring more laborers. Even if their profit margins are small, they generate larger total profits by increasing the size of their operations. A smaller farm, on the other hand, must be managed more *intensively*. A smaller farm has fewer resources and produces less than does a larger farm. Thus, a small farm must make a higher return per acre of land or per dollar invested to be economically competitive with a larger farm. By managing fewer resources more intensively, the small farmer

is able to make more profit per unit of output, and thus, may make more total profits, even though total production or output is less than on a larger farm. By giving more time and attention to each acre of land and each dollar invested, the small farmer is able to generate a larger return from a smaller farm, and thus, to make the smaller farm more profitable.

Sustainable farmers must fit their farming operation to their land and climate rather than try to bend nature to fit the way they might prefer to farm. In most regions, this requires a variety of crop and animal enterprises which must be integrated spatially and sequentially to maintain soil fertility and manage pests. In some regions, diversity is achieved through crop rotations and cover crops – without livestock. In other regions, diversity means managing livestock grazing to achieve diverse plant species or with multiple species of grazing animals. Through diversification, these new sustainable farmers substitute management of on-farm resources for the off-farm inputs that squeeze farm profits and threaten the natural environment.

Many of the new sustainable farmers are able to realize higher prices for their products by marketing directly to individual customers. They realize that each of us value things differently, as consumers, because we have different needs and different tastes and preferences. They produce the things that their customers value most, rather than try to convince their customers to buy whatever they might prefer to produce. And these higher values are reflected in premium prices for their products. They market to people who care where their food comes from and how it is produced – locally grown, organic, natural, humanely raised, hormone and antibiotic free. They market to customers who value the way their food is produced as much as the food itself.

In addition, these new farmers think for themselves and make their own decisions. Their farming operations reflect the things they like to do, the things they believe in, and the things they have a passion for, as well as the things that are profitable. Their products are better and their costs are less because by following their passion they end up doing what they do best. These new farmers are able to earn a decent income, but more important, they have a higher quality of life because they are living a life that they love.

In the process of farming, these new sustainable farmers build relationships, among each other, with their customers, and with their land. Their relationships are interdependent relationships of choice, rather than relationships of dependency or necessity. They share ideas and information. They are not trying to drive each other out of business; they are trying to help each other succeed. Some form partnerships and cooperatives to buy equipment, to process and market their products, to do together the things that they can't do as well alone. They are not trying to take advantage of their customers to make quick profits; they are trying to create lifelong social and economic relationships. They buy locally and market locally, bringing people together around a common interest in food and farming. They refuse to exploit each other or to exploit the land.

The economics of this new type of farming is fundamentally different from the economics of conventional production of agricultural commodities. A conventional farmer's net incomes generally run about 15% to 20% of gross sales. Thus, a farm with \$50,000 in gross sales would net only about \$7,000 to \$10,000 – certainly not enough to support a family. That's why the USDA categorizes such farms as “non-commercial” farms. The only hope for farms grossing

even up to \$100,000 per year, and netting \$15,000 to \$20,000, would seem to be to rely on non-farm sources for most of their income.

However, by managing more “intensively” the new farmers are able to net far more profit from each dollar of sales. They reduce their costs of purchased inputs through diversification, increase the value of their products through direct marketing, focus on doing things that they do best, and work together to do the things that they can't do as well alone. As a result, their net return per dollar of sales may be 40% to 50% rather than the 15% to 20% for a conventional farm. Thus, the net returns on a farm with \$100,000 in annual sales may be \$40,000 to \$50,000 and even a farm with \$50,000 in annual sales may net \$20,000 to \$25,000 to support the farm family. The bottom line is that 10 acres, intensively managed to produce high valued products, may generate more profits than 1,000 acres used to produce bulk agricultural commodities, such as corn, wheat, cotton, cattle, or hogs. Many small farms make some fairly big profits.

That said, many small farms don't make profits – at least don't report any net farm income at tax time. According to the USDA statistics, only 67% of small, “limited resource” farms and 63% of small, “lifestyle” farms reported positive net-cash incomes in 2004.<sup>4</sup> For “primary occupation” small farmers (with less than \$100,000 annual sales) only 69% reported positive net-cash incomes. For these three USDA small farm groups combined, only 65% reported any profit from farming. So, many small farms lose money. Obviously, some of these were hobby farmers or are rural residents, but many of these farmers were “primary occupation” farmers and they were not working for nothing.

A lot of small farms are “quality of life” farms – their primary purpose is to contribute to the quality of life of a farm family in ways other than by making money. Ask farmers on small farms why they farm and they virtually all will mention that a farm is a good to live and to raise a family. A good farm is a place that nurtures life – plants, animals, and people – and the lives of children can be nurtured as well by growing up on a farm. Farm parents have more influence on their children, because families spend more quality time together – work and family life happens at the same place. Children that grow up knowing they are valued, productive participants in the work of the family seem more likely to grow up with a healthy sense of self-worth. How much money does a family have to earn in a city to ensure quality learning opportunities for their children, the create opportunities for the family to grow together, and opportunities for children to build self-esteem? How much time and money is spent by families in cities just to keep the children “occupied” by “non-destructive” activities? The things that build strong families just come naturally in day-to-day life on a good family farm.

Ask farm families why they farm, and many will mention that they like the open spaces, fresh air, scenic landscapes, and the opportunity to live in a natural setting. How much money does a person have to earn in a city to live in a scenic, natural environment with fresh air and open spaces? Even small farms provide families very large “residential lots.” How much money does a person have to earn in a city to “buy” the open space, personal freedom, and privacy of a typical small farm?

Ask farm families why they farm, and many will mention that they like being part of a farming community. Farming communities may not be as *close* as they were back in the days

when farmers shared work, and when the social life of farm families was pretty much limited to community activities. However, many farming communities are still places where everyone knows just about everyone else, and everybody has an opportunity to pursue whatever community role they choose to pursue. How much time and money does a person in a city have to spend to develop and maintain a social network of friends? How much time and money does a person in a city have to spend to develop name recognition and credibility, if they decide to take on a leadership role in their “community?” Farmers just naturally find a place to belong, in a community with other farming families.

On a family farm, the open spaces, the place to raise a family, and the community, all come as part of farming. Farmers don't have to pay extra for a place to raise a family, because the place they raise the family is the farm. Farmers don't have pay extra for the extra space because they need the same space for the farm. And farmers don't have to pay extra to be a part of a farming community, because they become a part when they decide to live there and farm. These are valuable benefits that are just part of the “quality of life” that comes with a good farm.

As a bonus, the costs of many such “quality of life” benefits are considered as farming costs. The cost of owning farmland is a farming cost, although the farm provides a place to live. Many food costs are also farm costs, such as some of the costs of a vegetable garden and animals for meat, eggs, or milk. Some family transportation costs are farm costs – every farm needs a pickup truck. Many recreation costs, such as maintaining wildlife habitat for hunting and fishing, all-terrain vehicles for work and play, a stable for riding horses, and pets that “work” on the farm also are farm costs. For each dollar spent for personal expense, we have to earn anywhere from \$1.35 to \$2.00, depending on our tax bracket. Farmers only have to earn a dollar to spend a dollar on legitimate farm expenses, including those that create valuable personal benefits. In addition, every dollar “lost” on the farm may save from \$0.30 to \$0.50 in reduced taxes on off-farm income. So, many small farms that report “negative” net incomes still may be providing very valuable economic benefits to farm families.

It's conceivable that the costs of providing the same quality of life benefits that occur on many small family farms might require a \$30,000 to \$50,000 in non-farm income, or even more. The costs of such things as acreage in an upscale, gated community, enhanced private educational and recreational experiences for children, involvement in civic affairs, maintaining social relationships, membership in sport's club, and so on don't come cheap. So, a farm that just “breaks even” might be contributing as much to the quality of life of the family as a job that pays \$30,000 to \$50,000 in town. Furthermore, many families that live in cities need more than one income, and sometimes more than one job per person, just to make ends meet. Some families that bring in more than \$100,000 a year are still unable to pay for their desired quality of life, as they go deeper into debt. A full-time farming family that just breaks even is doing as well economically as a city family that is just making ends meet. The bottom line, it would cost a lot of money for people living in cities to buy the quality of life benefits that are an inherent part of a good family farm, and some quality of life benefits of farming are truly “priceless.”

Farming for profits and quality of life is about the pursuit of happiness, rather than the pursuit of wealth. Happiness has always been the ultimate objective of life and people historically have understood the difference between the pursuit of happiness and the pursuit of

wealth. Certainly, some level of material well-being is necessary for happiness, but both philosophers and ordinary people have always understood that happiness is about relationships, within families and communities, and happiness is about ethics and morality. Happiness is a consequence of our overall way of life. Real farming is not just an occupation; it's a way of life.

University psychologists Ed Diener and Martin Seligman reviewed more than 150 scholarly studies relating wealth to happiness.<sup>5</sup> Their 2004 report confirmed a growing consensus that beyond some very modest level of income – around \$10,000 per person, they suggest – increases in income do not necessarily bring greater happiness. A 2003 British cabinet office report also confirmed, “Despite huge increases in affluence compared with 1950, people throughout the developed world reported no greater feelings of happiness.”<sup>6</sup> These studies consistently found that personal relationships – friends, family, and community – are necessary for happiness, as is a sense of being treated with equity and justice within society. And perhaps most important, they concluded our happiness depends on our having a clear sense of purpose and meaning in life to define what is right or wrong and good or bad – our sense of ethics and morality.

Farming for profit and quality of life is about building strong, healthy relationships within families, friendships, communities, and societies. Farming for profit and quality of life is about taking care of the land, taking care of animals, and being good stewards of nature while meeting the basic needs of human society. It's about living a life or purpose and meaning. Ask a quality of life farmer why the farm and he or she just might tell you, “I farm because I feel I have to. I feel like this is what God meant for me to do.” Farming with purpose is about the pursuit of happiness.

Profits are important but those farmers who focus solely on making profits have lost sight of their true purpose in life because money is never anything more than a means to some greater end. If in the pursuit of greater profits, farmers end up diminishing their quality of life, they will have gained nothing because they have taken the happiness out of farming. The new sustainable American farmers are proving that farming can be profitable as well as a desirable way of life, and that farms don't have to be big to be profitably. Farming for sustainability is about building relationships, living with purpose, and making enough profits to support a desirable way of life. Farming for profits and quality of life ultimately is about the pursuit of happiness.

## End Notes

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<sup>1</sup> Robert A. Hoppe and Penni Korb, “Large and Small Farms: Trends and Characteristics,” in *Structural and Financial Characteristics of U.S. Farms* (U.S. Department of Agriculture, Economics Research Service, 2004) .

<sup>2</sup> Christopher Cook, “Business as Usual,” *The American Prospect*, online edition, April 8, 2006, <http://www.prospect.org/web/page.wv?section=root&name=ViewPrint&articleId=11322>

<sup>3</sup> For 50 real life examples, see “The New American Farmer – Profiles in Agricultural Innovation,” the SARE Program, USDA, Washington DC. (\$10 US – call: 802-656-0484 or e-mail: [sanpubs@uvm.edu](mailto:sanpubs@uvm.edu) , also available free on line at <http://www.sare.org/newfarmer> )

<sup>4</sup> *Farm Income and Financial Performance*, in *Structure and Finances of U.S. Farms: Family Farm Report*, 2007 Edition / EIB-24 (U.S. Department of Agriculture, Economic Research Service).

<sup>5</sup> Ed Diener and Martin EP. Seligman, “Beyond Money. Toward an Economy of Well-Being,” *Psychological Science in the Public Interest*, 5 (1), 2004, 1–31.

<sup>6</sup> Oliver James, “Children before cash; better childcare will do more for our wellbeing than greater affluence,” *The Guardian*, May 17, 2003.