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Can We Save "Agriculture of the Middle?"

Fred Kirschenmann

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There are strong reasons for creating a recognized general format for quality management systems.

- Reduction of parochial protectionist trade disputes based on process or measurement methods.
- Discovery through discipline of unrealized efficiencies.
- Confirmation to consumers of both process and quality of food consumed.
- Simplification of interchange among market generated QMS programs, so that users and/or suppliers do not become captive to a specific system and its associated marketing network.

For the producer and the user alike, quality management systems have immediate benefits:

- Operating efficiency and cost savings are created through the detailed study of operations required for QMS. Industrial firms have averaged around $1.50 - $2.00 of cost and efficiency gains for every $1 invested.
- The chain-of-custody documentation that is required for a comprehensive QMS will be a major benefit in marketing sensitive or narrowly focused products, such as genetically transformed pharmaceutical/industrial grains, or specifically fed specialty animals. Some of these products are genuine concerns to general users, and often are very hard to test or validate in the traditional inspect and pay scheme of commodity markets.
- The exhaustive analysis and procedural controls is well suited to reduction in security threats, such as addition of toxic agents or production limiting diseases. For example, white mineral oil is applied for dust control to nearly all grain handled at elevators, and the number of suppliers is very limited. The stringent validation and audit requirements of a QMS, which normally are imposed on suppliers to QMS firms, greatly reduces the chance that a terror agent could be distributed in this way.

For users, buying from QMS producers/handlers is an automatic method of pre-delivery tracking. The producer and first handler must be involved in source verification if any meaningful tracking and/or quality improvements are to be made.

Next Issue: Quality Management Systems for Grain Markets

Can We Save “Agriculture of the Middle?” *

by Fred Kirschenmann, Director, Leopold Center for Sustainable Agriculture

. . . if agriculture is to remain productive it must preserve the land, and the fertility and ecological health of the land; the land, that is, must be used ***well****. A further requirement, therefore, is that if the land is to be used well, the people who use it must know it well, must be highly motivated to use it well, must know how to use it well, must have time to use it well, and must be able to afford to use it well. Nothing that has happened in the agricultural revolution of the last fifty years has disproved or invalidated these requirements, though everything that has happened has ignored or defied them.*

—Wendell Berry

I first ran across these words by Wendell Berry when I read his book, *What Are People For?* in 1990. As a farmer who managed a 3,500-acre grain and livestock farm in North Dakota, I couldn’t deny the impeccable logic of his thesis. But neither could I escape the demands of the industrial farming culture, of which I was a part. That culture imposed on

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me the singular requirement of producing more commodities cheaper than anyone else— regardless of the cost. I felt caught between my long-term goal of maintaining the productivity of my farm by ensuring the ecological health of my land and the social health of my community, and the short-term requirements to produce as much as possible. Almost every farmer I know feels caught in the same dilemma.

Ecologists and farmers alike have understood for some time that natural ecosystems can be managed well only by having people live in those ecosystems long enough and intimately enough to learn *how* to manage them well. We must, as author Barry Lopez reminds us, live in our neighborhoods long enough to know the "local flora and fauna as pieces of an inscrutable mystery, increasingly deep, a unity of organisms."

This is the strongest — and perhaps the only — argument for maintaining our independent family farm system of agriculture in which land is passed from generation to generation. As I have come to know such landed farm families in Iowa and listened to them describe their farms, I have been struck by the fact that they always talk about their farms as members of the family. That is as it should be. That is what it *must* be if we are going to *remain* productive.

We have now reached a point where that kind of agriculture is about to disappear. Since about 1960 the demands of our industrial farming culture have required farmers in Iowa to spend all of their gross income (including government subsidies) to pay the bills associated with producing that income. The result has been that farmers' net income has remained flat, leaving no money to pay for living expenses, let alone investment in land care or community well-being. Meanwhile, farmers are under enormous pressure annually to add more units of production (more animals and/or more acres) just to generate the additional income to pay last year's bills. Little attention has been paid to motivating farmers to use their land well, or even allowing them time to get to know it well.

At the same time, corporations that purchase farm commodities want to reduce transaction costs and, therefore, tend to give preferential contracts to the largest producers, placing smaller farms at a competitive disadvantage. Very small farms have gravitated toward various direct marketing schemes to survive, selling produce direct to customers through farmers markets, community-supported agriculture and other direct market arrangements.

Farms in the middle — those between the direct markets and the markets available through vertically integrated, multi-national firms — are most at risk.

This is not strictly a farm-scale issue, although it is highly scale-related. There are very large, multi-family units that still retain some of the principles in Berry's premise of a farm that can use the land well. But increasingly it is precisely the farms that fit Berry's description that we are losing.

A study prepared by Mike Duffy at the Leopold Center shows that the greatest percentage loss of Iowa farm operators (in acres and total sales) between 1987 and 1997 was among farms of 100 to 900 acres. Meanwhile, the total percentage of sales for farms *under* 100 acres and *over* 1,000 acres increased between 40 and 55 percent. Clearly we are losing these "middle" operations, which make up more than 80 percent of Iowa's farms.

As farms consolidate, land continues to be farmed, likely with less labor, and this transformation has been welcomed by many in the agricultural economy. Indeed, some see it as a necessary "correction" in the market. But Berry reminds us that we stand to lose something much more important—the capacity of the land to *remain* productive.

At the Leopold Center we believe that the loss of "agriculture in the middle" is not inevitable. We see new opportunities — in alternative production systems and new market resources — that can create a comparative advantage for these farms.

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At this year's Practical Farmers of Iowa conference, SYSCO Corporation president and CEO Rick Schnieders told the audience that "markets for sustainably-produced products are there — what is needed are supply chains to deliver those products to the consumer." Building those supply chains is an opportunity for economic development in Iowa's rural communities.

Alternative production systems that are *more* productive but less costly to the farmer and to the environment must be researched and developed. New supply chains can be built that enable farmers to produce more value and retain more of that value on the farm and in their rural communities.

We also know that additional new public policies could be crafted to help farmers move toward these new systems and encourage them to use the land well. Our goal at the Leopold Center is to bring people, organizations and industries in Iowa together to achieve these goals.

Self-Employment Tax on Rented Land If Some Land Is Not Rented

by Neil Harl, Charles F. Curtiss Professor in Agriculture, professor of economics, 515-294-6354, harl@iastate.edu

Liability for self-employment tax is clear if land is rented under a cash-rent or non-material participation share lease—no self-employment (SE) tax is due. On the other hand, if land is rented under a material participation share lease, self-employment tax is due. However, if some land is rented under a cash rent or non-material participation share base, and other land is operated (or rented under a material participation share lease), the outcome is less clear.

Guidance from the statute

The basic guidance on imposing self-employment tax comes from Section 1402(a) of the Internal Revenue Code. Under that provision, the self-employment tax is imposed on "net earnings from self-employment." The term "net earnings from self-employment" is defined as "gross income derived by an individual from any trade or business carried out by such individual...." If the business is carried on by someone else, FICA tax may be due. If there is no trade or business, no self-employment tax is levied.

The statute proceeds to exclude rentals from real estate but then includes amounts paid "under an arrangement" involving the production of agricultural or horticultural commodities where there is material participation under the lease. The statute does not address the SE tax liability of a taxpayer who is carrying on a trade or business but is also carrying on a rental activity.

Stevenson v. Commissioner

The 1989 case of *Stevenson v. Commissioner*, involved a taxpayer who was engaged in the business of purchasing portable advertising signs for rental or for resale. The taxpayer personally assembled and stored at a rental warehouse all new portable advertising signs. The taxpayer also stored all used portable advertising signs, repaired them and held them for sale or rental.

The taxpayer argued that the income from the rental of portable advertising signs was excluded from self-employment income. The taxpayer's position was that the statutory language excluding rentals from real estate and from personal property leased with real estate from self-employment income was only illustrative as to what was to be excluded.

The Tax Court held that the rental and sale of advertising signs was, overall, a trade or busi-

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