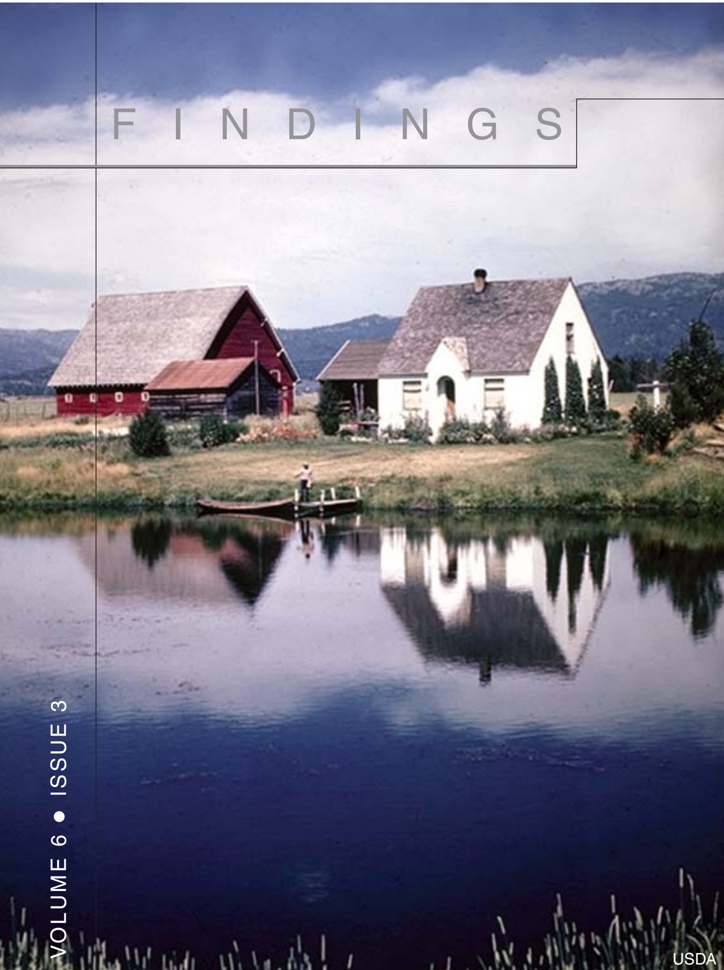


A Look at the Economic Well-Being of Farm Households

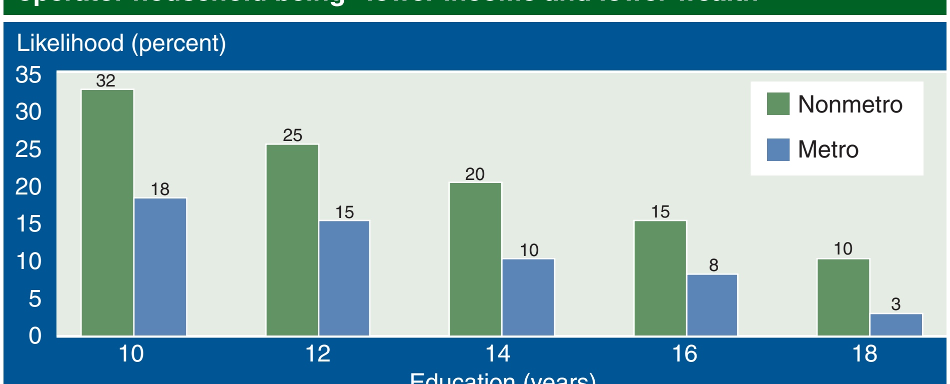
Average farm household income has consistently exceeded that of all U.S. households for more than a decade. Nonetheless, nearly 12 percent of farm households were classified as poor in 2004, based on the official U.S. definition of poverty, only slightly less than the 12.6 percent of nonfarm households considered poor in 2004. However, the income measure used to determine how "poor" a household is may not capture variations in economic well-being among farm households as well as it does among nonfarm households. In particular, a broader definition of well-being may better account for annual variation in farm income and the potential stabilizing effect from the sizeable farm assets held by many farm households.

Using data from USDA's 2004 Agricultural Resource Management Survey, ERS researchers developed a comprehensive measure of economic well-being that combines pre-tax income with an estimate of the potential income stream provided by a farm household's marketable wealth (i.e., that portion of a household's assets that can be easily converted to cash if necessary). When adjusted for family size, this composite measure recognizes the role that accumulated wealth can play in helping households cope with temporary swings in household income—a phenomenon particularly common among farm households (see "Income an Incomplete Measure of Farm Household Well-Being," June 2007 issue of *Amber Waves*). Nearly 22 percent of farm households are classified as "lower income and lower wealth" based on composite income levels of less than half of the farm household median.

ERS examined the characteristics of these lower income and lower wealth farm households to determine what differentiates them from their "higher income and higher wealth" counterparts. For many farm households, participation in government farm programs and in off-farm work represents viable strategies to mitigate the impact on household economic well-being of agricultural risks resulting from variations in market prices, pest infestations, weather, and other factors. Participation in farm programs and/or in off-farm work reduces the likelihood of a farm household being categorized as lower income and lower wealth based on ERS's composite measure of household economic well-being. Less than half of farm households receive farm program payments in any given year. On average, most farm household income derives from working off the farm.

ERS also examined whether other factors affected the economic well-being of farm households. Findings indicate that the likelihood of the household being lower income and lower wealth is reduced when the farm operator has more education, is White, is married with no children, or is age 45 or older. The importance of education was more pronounced for farm households located in metro areas than in nonmetro areas.

Education and metro farm location reduce the likelihood of a farm operator household being "lower income and lower wealth"



Source: Simulation results based on estimates from a regression model using data from USDA's 2004 Agricultural Resource Management Survey.

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This finding is drawn from . . .

"Determinants of Poverty Among U.S. Farm Households," by Hisham El-Osta and Mitchell Morehart, in *Journal of Agricultural and Applied Economics.* 40, 1 (April 2008): 1-20.