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Income Source Matters in Farm Household Spending

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Many U.S. farm households have several income sources, including farm production, off-farm employment, and government payments. ERS research suggests that farm households may employ “mental accounting” to decide which income sources, including different types of government payments, are most appropriate for household expenses.

Farm household expenditures support the household, rather than the farm business, and include food, nondurable goods such as clothing, durable goods such as appliances and home improvements, and savings and investments, including retirement accounts such as Individual Retirement Accounts. ERS research, using data from USDA’s 2003-05 Agricultural Resource Management Survey, found that increases in relatively stable non-farm income have a greater impact on farm household spending than do increases in farm production income, which can vary from year

to year because of weather effects, crop failures, animal losses, and/or commodity price fluctuations.

Government payments also include both stable and variable types of income, and as with other income sources, farm households do not consider all government payments to be the same. Increases in variable government payments, such as marketing loan benefits, were found to affect farm household expenditures less than increases in stable government income sources, such as fixed direct payments.

Income variability, however, does not fully explain the effect of different types of government payments on household spending. Countercyclical payments may be available when program crop prices fall below a target level and thus vary from year to year. Their impact on household expenditures, however, is closer to that of stable direct payments. It

may be that because countercyclical payments are not tied to current production, but rather to historic (base) acreage like fixed direct payments, farm households consider them in the same mental account as fixed direct payments and therefore available for household uses. By contrast, farm households may consider income from sources associated with current production, like marketing loan benefits, more appropriate for farm business expenditures. **W**

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This finding is drawn from . . .

“Income Stabilization Through Government Payments: How Is Farm Household Consumption Affected?” by James B. Whitaker and Anne Effland, in *Agricultural and Resource Economics Review*, 38(1):1-13, 2009.