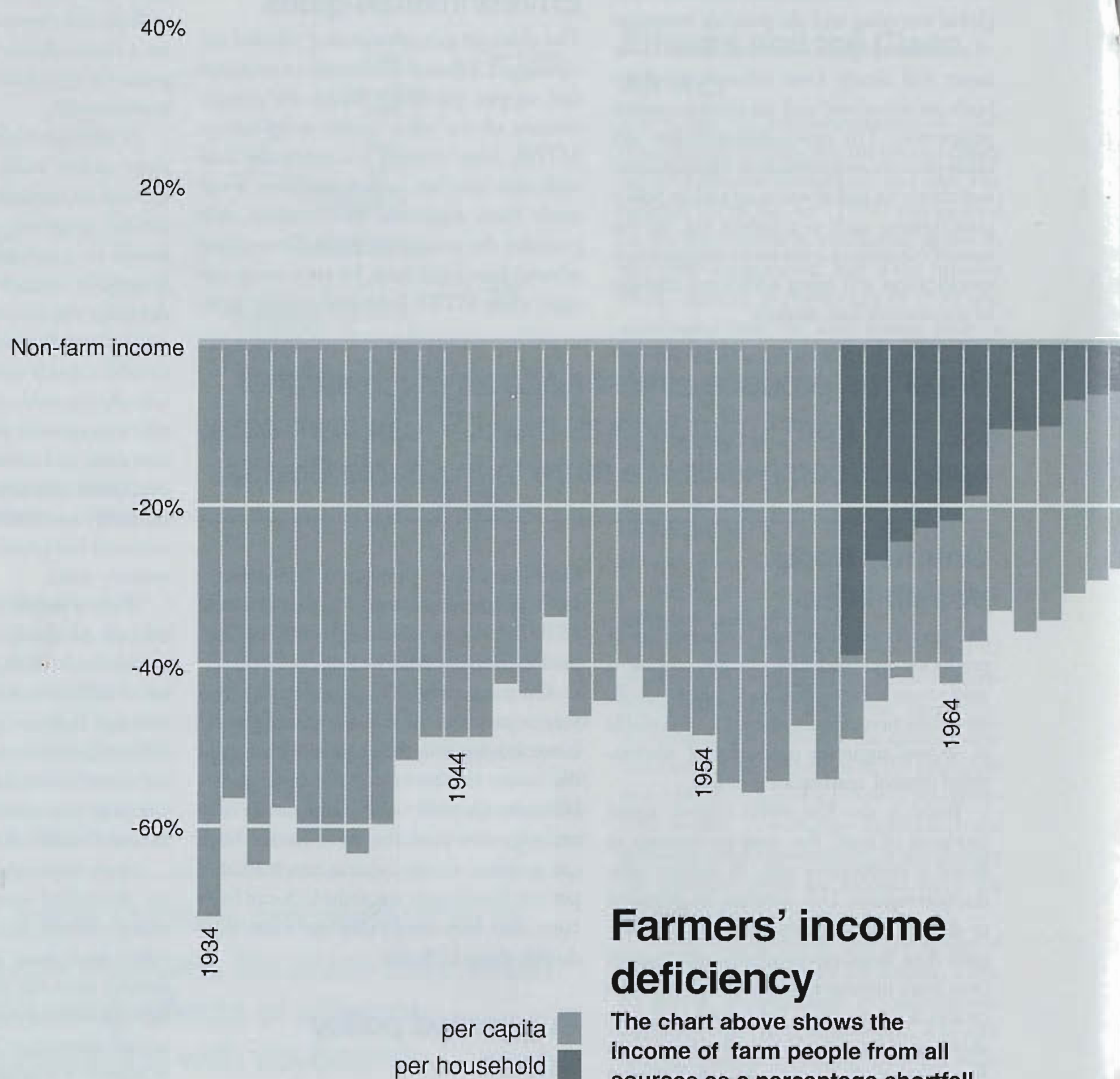
Graphically speaking

Demythologizing farm income

■ by Bruce Gardner



Farmers' income deficiency

The chart above shows the income of farm people from all sources as a percentage shortfall or excess of the income of nonfarm people.

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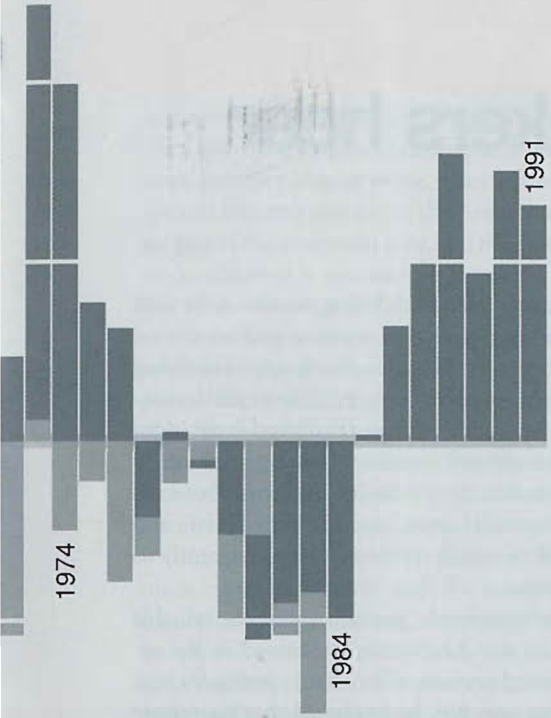
An enduring rationale for commodity price support programs is the low income of farm as compared to nonfarm people. USDA estimates for 1934-1960 find farmers' per capita income from all sources (farm plus off-farm) averaging less than half the level for nonfarmers. However, since 1960 the ratio of farm/nonfarm incomes has increased dramatically. More recent USDA estimates, which compare total income per household, find farm household income above nonfarm income in every year since 1986, and averaging above nonfarm income for the 1970-1991 period as a whole. The 1934-1991 per capita and household income data are plotted in the figure.



Are the data trustworthy?

Grave difficulties exist in making these farm/nonfarm income comparisons. The historically larger size of farm families biases a per capita comparison; but it also biases a per household comparison, so that there is no "right" way to make the comparison. Moreover, some farms provide income for more than one household. Farmers receive more of their income from self-employment (typically under-reported), and face lower average costs of living. Farmers receive more income in kind—home-produced goods, housing—but USDA includes a housing allowance in farm income that is not included in nonfarmers' income even for people who own their homes. The data do not exist to make accurate corrections for these differences.

A more fundamental problem arises from two differing conceptions of farm income: as a measure of command over consumption; and as a measure of returns to a farming enterprise. According to the first conception, off-farm earnings and owner-occupied housing should be included. According to the second conception, both should be excluded.

Given these problems, the farm/nonfarm comparison that is most noteworthy is not any measured ratio at a given point in time, but rather the trend over time in the ratio. Thus, the key point about the chart is not that the average farm household is estimated to have 26 percent higher income than the nonfarm household in 1991; but rather that a measure which in 1960 showed farm incomes almost 40 percent below nonfarm incomes now shows farm income well above nonfarm income, with a 30-year trend of very significant gains for farm relative to nonfarm people.

The farm size myth

A myth that seems even more persistent than the idea that farm families are a low-income group is the view that the operators of mid-size farms are in an especially bad situation. High returns to the largest family farms are well documented. And smaller farm operations do well because they leave more time for household members to work off the farm. But mid-size farms, according to common perception, lack both the scale to do well farming and the time for off-farm work. Yet the data do not bear out this view.

For 1989, it is true that the 71 percent of all farms with sales of less than $40,000 average only $1,300 each in net cash farm income, and that their average of $34,600 in off-farm income nonetheless places them above the average nonfarm household. But farm households in the $40,000 to $99,999 sales class do even better, with an average of $51,000 ($26,000 from farming and $25,000 off-farm). True, neither group can approach the more than $300,000 earned on average, by the farms with $250,000 or more in sales. Still, there is no apparent economic force to prevent the operations between $40,000 and $99,999 in sales to survive just as well as smaller, part-time farms. Indeed, the farms with sales of less than $20,000 obtain negative cash income from the farming operation. These enterprises are the ones most likely not to survive. People will pay only so much to be a farmer!

While some of these income figures look high when one considers the hard work and millions of dollars invested in a very risky business, farms earn only competitive rates of return. There is nothing "excessive" about them. But we should bury once and for all the myth than any large category of farms —large, mid-sized, or small—constitutes a class of poor people.

Causes of farm household income gains

The main forces cited by economists as contributing to long-term income gains are

- migration of excess farm operator labor to nonfarm employment;
- improved education and skills of farm people;
- increased nonfarm work by members of farm households;
- larger farms with economies of size;
- lower costs through technical progress;
- federal farm programs.

Disentangling these factors from one another, and from short-term events such as droughts and commodity price booms, is a formidable task. No consensus exists on the importance of any one of these factors, or all of them together. It is likely that the first five listed have mutually reinforced one another. Improved off-farm opportunities and improved farmer skills have combined with new technology and economies of scale to permit farm households to make far better use of their economic resources whether they specialize in farming or not. ■