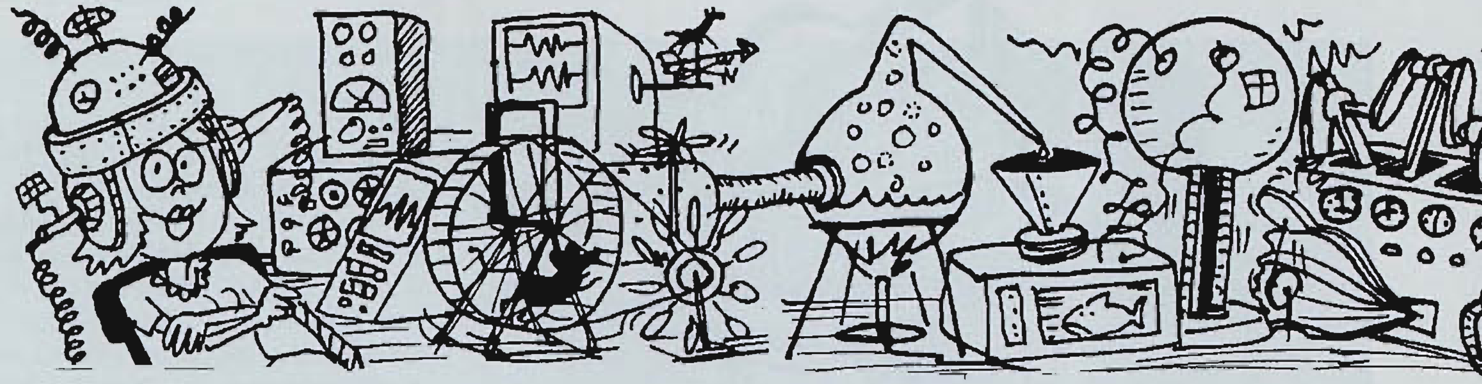
Letters



Revitalizing the Russian Food System
A Comment

■ Professor Bromley provides an interesting prescription for revitalizing the Russian food system (*CHOICES*, Fourth Quarter 1993)—he disapproves of privatization as a panacea and he makes a passionate plea for an institutional framework to govern markets before restructuring the food and fiber system. "Free markets" do not exist in Russia except for urban farmers' markets and roadside stands. A slightly modified central procurement system still exists in Russia, the Ukraine, and other former Soviet republics, essentially a monopsonistic market with quotas and set prices. There is little flexibility in the system, and it has not produced significant results in either outputs or improved food distribution.

The transition to competitive input and output markets requires innovative political leadership to develop the institutional framework to govern these markets. Where will this leadership come from? Will it be among the former enterprise managers who have recently emerged in key positions in Russia? Bromley left this important question unanswered.

Are there opportunities to improve the food and fiber system without waiting to develop a completely new institutional framework as Bromley suggests? Food processing and preservation offer opportunities for improvement with large payoff potential. In Ukraine, for example, some food processors and slaughter plants have been reorganized as joint-stock companies. Managers recognize the need to modernize their equipment and offer new products for consumers. However, their primary constraint is access to capital for new equipment. If the West wants to play a constructive role in the transition process, providing access to capital in the food processing sector should be a viable long-term investment.

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Demythologizing Farm Income Debate "Much Ado About Very Little"

■ *CHOICES* of fourth quarter 1993 devotes almost four pages to an exchange between Mary Ahearn and Bruce Gardner relative to farm-nonfarm income comparisons and data applying to them. Mary Ahearn goes to considerable length to explain the fine points of data series the Economic Research Service is developing.

I hold both economists in high regard and surely do not disparage attempts to clean up data series and make them more conceptually and numerically precise. I said as much in my article published in *CHOICES*, Third Quarter 1993, where I complimented Gardner for protesting careless use of data.

But after reading the four pages, I concluded that the exchange is much ado about very little. I offer two reasons for thinking that. First, I ask whether instructors in statistics still teach that where dispersion in a universe is extremely great, measures of central tendency hold little meaning. As a tot, I learned the principle from my father, who quipped about meat in U.S. doughboys' diets in W.W.I. "Half horsemeat and half rabbit," he said. "One horse to one rabbit."

Incomes of farmers (according to census definition of a farm) show fully as great a size discrepancy. Not to pun, but in such a circumstance what does a statistical mean mean?

Secondly, in the very first years of farm programs when Milo Reno was scorching the countryside and official data showed farmers' income to be, at most, 40 percent of nonfarmers', income comparisons were germane. For a few years Congress, with economists' help, pondered parity of income and the various formulas for estimating it. Before long they lost interest. A few economists still suppose the object of commodity programs is to set an income disparity right. That has not been true for at least 40 years, perhaps 50. So why worry about measuring about what is, to overstate it a little, essentially unmeasurable and irrelevant?

But income distribution is of genuine concern. The ERS might be better advised to look into construction of data on the various categories of rural poverty.

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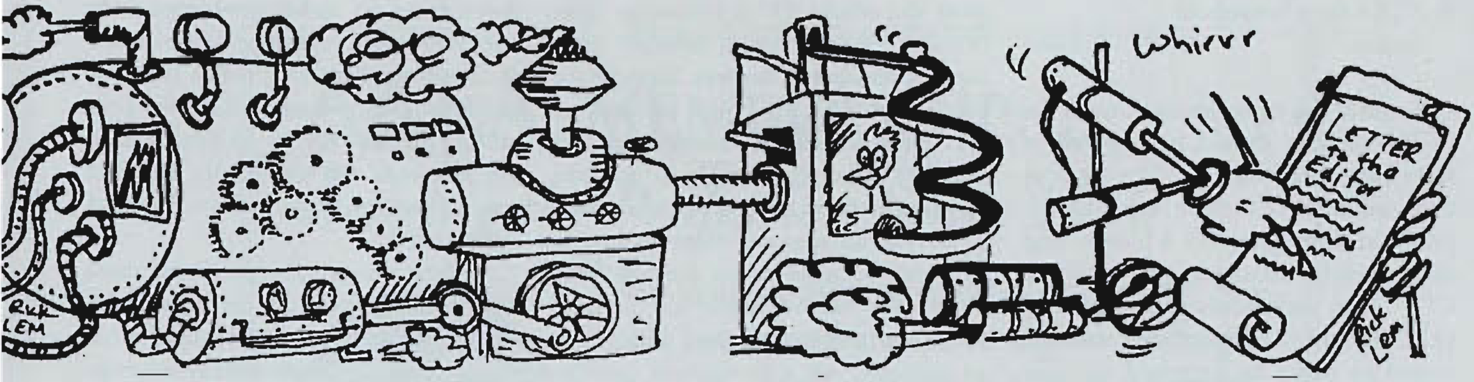

Another "Farm Income" Comment

■ It has been frustrating to read the debate in *CHOICES* about estimating farmers income. We had two obviously intelligent and well-respected scholars, Bruce Gardner and Mary Ahearn, disagreeing with each other about how to mix apples, oranges, and pears to get some meaningful fruit juice when no one but the USDA, politicians, and land grant colleges want to know much about that particular fruit juice .

The rest of us want to know individually about the apples, oranges, and pears—i.e., full-time farmers, corporate farms, and hobby farmers. Adding them together produces information as useless as adding the incomes of amateur and professional baseball players. We don't add the spouse's income or other investment income when we talk about what professors earn, so why should we do so when we pretend to learn about farmers' incomes? Considering anyone who earns $1,000 from agricultural production a farmer insults everyone's intelligence. Every Sunday school teacher in a rural community can tell you which families are farmers, but it seems to be impossible for U.S. ag economists.

Out here on the farm, we have to learn to do things differently every few years; look at the way we're raising hogs today. So why can't we come up with some new terms to reflect today's agriculture? We badly need a word, something like "farm-op" to describe the approximately 450,000 people who work full time operating the farms that produce most of the commodities that feed us and who take the risks of income exceeding all costs. The return to an hour of their labor and a dollar of their equity is meaningful, as are the similar items for the large typically corporate farms operated almost totally with hired labor.

We should quit telling the world that there are 2 million U.S. farmers, which only confuses the issues of agriculture.

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On "Demythologizing Farm Income"

A second author response

■ The startling aspect of the two farm income tables in USDA's *Agricultural Outlook* (tables 29 and 30 in the April 1994 issue) is the apparent inconsistency between them. For 1992, the estimate of "farm income to household" is given as $4,882. With 2.08 million farm households this implies aggregate farm income of $10.2 billion. But on the same page aggregate net farm income is given as $48.6 billion. Thus, the new farm household income data appear to leave over three-fourths of aggregate net farm income unaccounted for! Since the tables make no reference to this gap, much less provide an explanation of it, the *AO* tables will not remove confusion about farm income data.

The closest approach to a reconciliation that has been published is in the September 1993 *Agricultural Income and Finance Situation and Outlook Report,* p. 24, using 1991 aggregate net cash income of $53.3 billion. Subtracting $15.7 billion depreciation gives $37.6 billion in sectoral net farm income. Income in kind, such as the value of owner-occupied housing, is excluded. The estimate of 1991 farm income per operator household is $4,397, based on the Farm Costs and Returns Survey (FCRS). With an estimated 2.08 million households, this implies an aggregate income of these households of $9.1 billion. The gap between the sectoral and FCRS aggregates is filled roughly as follows:

1. USDA sectoral farm income (net cash income less depreciation)	$37.6 billion
2. receipts included in sectoral estimates but not FCRS (e.g., forest products sold from farms)	-5.6 billion
3. receipts from 1991 production deferred until 1992	-3.0 billion
4. income of nonfamily corporations and cooperatives	-2.2 billion
5. income of contractors	-12.9 billion
6. receipts from other farm business less payments to partners	-1.4 billion

7. residual discrepancy -3.4 billion
8. FCRS farm household income $9.1 billion

Some of the items excluded from the FCRS measure should be counted in farm household income. The receipts excluded in line 2 include forestry products sold from farms ($1.8 billion) and some returns occurring as a result of CCC loan redemptions by farmers ($1.7 billion). The deferred receipts would be offset by increased incomes in subsequent years, and should average roughly to zero. Some of the residual discrepancy is likely to result from under-reporting, which is widely known to be typical in surveys of self-employment income.

The biggest item in the gap between lines 1 and 8 is contractors' incomes. This is the estimated net income from farming of people and corporations who have contractual arrangements with farmers such as grow-out fees for broilers. It appears amazing that these relatively few individuals earn more from farming than the two million "real" farmers. However, the statistical base is weak in that contractors themselves were not surveyed in the FCRS and some of their costs are not counted. There is a question also whether these individuals, as well as the partners excluded in line 6, should be left out of the farm population for purposes of farm/nonfarm income comparisons. Surely many of them think of themselves as farmers, act politically as farmers, and receive the benefits of farm support legislation. Indeed, if we are making farm/nonfarm income comparisons for purposes of judging whether farm policies assist the relatively rich or relatively poor, we might count almost the whole $37.6 billion as farm income, divided by a suitably augmented number of farmers. Suppose we count lines 2, 3, 6, 7, and one-half of 5 as farm household income and add 300,000 more households to account for partners and contractors (assumed to average the same off-farm income as farmers). This yields an average farm household income about 30 percent above the nonfarm average. This is not an estimate, just a conjectural calculation to illustrate what is at stake.

Mary Ahearn is right to insist that the task of demythologizing farm income was not completed by the data I used in the *CHOICES* chart. But she seriously overstates the extent to which former dim perceptions of farm income are supplanted by blazing light in the new USDA data. Much further and difficult research is required. In the mean time I persist in seeing the data available as indicating average farm household incomes above the overall U.S. average.

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Is the Farm Multiplier Seven? Former Farm Bureau Staffer Comments

■ Gerald Schluter's article on the 7 to 1 Theory (*CHOICES*, Fourth Quarter 1993) brought back memories to this retired Farm Bureau staff member.

I agree with Schluter's analysis and his comment that "lore passed down from an earlier generation is not a substitute for a clear understanding of cause and effect." I doubt, however, that the 7 to 1 theory qualifies as "lore passed down from an earlier generation." As one who was working in Washington as a staff member for a major farm organization when Carl Wilken was promoting his theory, I would dissent from any inference that this theory ever had any substantial support from national farm leaders.

Wilken was a very persistent man who could assume an air of martyrdom when his views were questioned. He testified at Congressional hearings from time to time, but I don't believe his theory had much effect on farm policy. The parity concept, another idea which defied economic logic, had a much greater effect. Wilken's theory was useful to some members of Congress regardless of whether or not they actually believed it. It was simple; it had a surface plausibility; and it provided a rationale for price support policies that were already favored for political reasons.

In the spring of 1950, at the request of Senator Homer Capehart, Wilken was given an opportunity to present his theory to a group of Indiana Farm Bureau leaders. Economists from Butler and Purdue Universities were also invited to present their views. As usual, Wilken was unmoved by economic arguments. Finally, late in the afternoon, an elderly Indiana farmer anticipated Mr. Schluter's analysis. He said, "Mr. Wilken, there is an old rooster on my farm that crows every morning just before the sun comes up; but I have a feeling that the sun would still come up if he didn't crow."

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Findings Citations

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Note: *AJAE* is the *American Journal of Agricultural Economics*, *JAAE* is the *Journal of Agriculture and Applied Economics*, *JEEM* is the *Journal of Environmental Economics and Management*, *LE* is *Land Economics* , *RAE* is the *Review of Agricultural Economics*, *ARER* is the *Agricultural and Resource Economics Review*, *JARE* is the *Journal of Agricultural and Resource Economics*.