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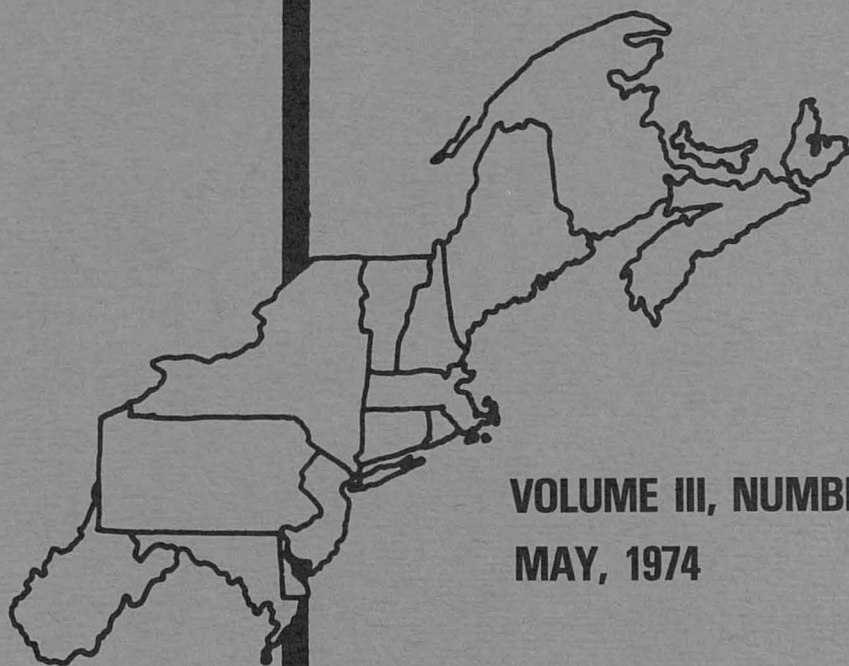
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**Northeastern
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Council**



**VOLUME III, NUMBER I
MAY, 1974**

WAGE AND SALARY INCOME:
A "BIG CROP" FOR PEOPLE WITH FARM EARNINGS

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Historically, farm families relied primarily on income from farming for family living needs. Income from off-farm sources was usually of minor importance to the family. However, as mechanical and technological revolutions reduced total labor requirements needed in farming, many farmers combined farming with a nonfarm job to stabilize or increase their family income and improve their overall economic situation. The purpose of this paper is to examine the importance of off-farm income among people with farm earnings, especially the wage and salary component of off-farm income.

Data Sources

Data used in the analysis are from the Farm Income Situation [6] and special Internal Revenue Service tabulations. However, the definition of both population and income differs for each data source. Personal income of the farm population, reported in Farm Income Situation, is the income from farm and nonfarm sources of all persons living on farms. Income from farm sources consists of total net income of farm operators, 1/ including government farm program payments, minus net income for nonresident farm operators. To this is added wages and salaries and other labor income earned by farm resident workers minus social insurance contributions made by farm resident workers and operators. Personal income from nonfarm sources includes nonfarm wages and salaries, nonfarm business income, rental of nonfarm property, dividends, interest, royalties, unemployment compensation, and Social Security payments.

The Internal Revenue Service data, 2/ on the other hand, consist of all individuals reporting income from farming activities in 1970. The

* The views expressed are the author's and do not necessarily represent those of the U.S. Department of Agriculture. Appreciation is extended to Mary Darhanian for assistance in compiling the data.

1/ Farm operators' net income is their realized income plus or minus the value of the net change in inventories.

2/ Special tabulations were prepared by IRS at the author's request. At no time did the author have access to individual tax records. Provisions for such special statistical studies are made in Section 7515 of the Internal Revenue Code.

population is comprised not only of farm operators, but also includes individuals who own farmland but who are not directly engaged in farming. Farm receipts include sales of livestock, livestock products, crops, government farm program payments, and other taxable farm related income including ordinary gain or loss on capital assets. For the tax data, income other than from farm sources is classed as "off-farm" income. Wages and salaries earned by working on another farm are considered as off-farm income. Thus, off-farm income includes all wages and salaries, interest, dividends, nonfarm business income, royalties, rents, and other taxable income. Not included are Social Security benefits, welfare, and other transfer payments, interest on nontaxable bonds, and home-consumed farm products [5]. Because the majority of the tax returns appear to be joint returns, income reported on tax returns for 1970 can be considered a proxy for total family income. 3/

Nonfarm Income of the Farm Population

In 1970, the farm population, resident operators plus other farm residents, received \$13.2 billion in income from nonfarm sources [5]. This was more than double the \$6.3 billion received in 1950, and considerably higher than that received in 1935. Except for the period during and shortly after World War II (figure 1), earnings from nonfarm sources have steadily increased in importance. 4/

Based on 1970 constant dollars, the annual growth rate of per capita nonfarm income has exceeded that of farm income since 1950 (table 1). Growth in nonfarm income helped to offset the real decline in farm receipts during the decade of the 1950's. Between 1960 and 1969 nonfarm income more than doubled that of the previous period and far outstripped the gain in farm income.

Farm product prices which rose substantially during 1972 5/ enhanced the growth in per capita personal farm income for the 1970-72 period (table 1). Had personal farm income advanced between 1971-72 at the lower rate experienced between 1970-71, the growth rate for 1970-72 would have only been 3.6 percent. It is questionable whether personal income from farming will continue at the higher growth rate during the remainder of the 1970's. Not only are high farm product prices contingent on strong domestic and foreign demand but recent inflation has also increased the cost of many farm inputs. Thus, even with higher prices, farmers may still face a new "cost-price" squeeze.

3/ Federal income tax data have certain limitations. The reader is referred to two articles by Reinsel [4, 5] which adequately cover the major limitations.

4/ Number of people living on farms--farm population--has declined from 32 million in 1935 to about 10 million in 1972 [6].

5/ Index of prices received by U.S. farmers rose from 110 to 112 between 1971-72, but rose from 112 to 126 between 1971-72 [7, p. 421].

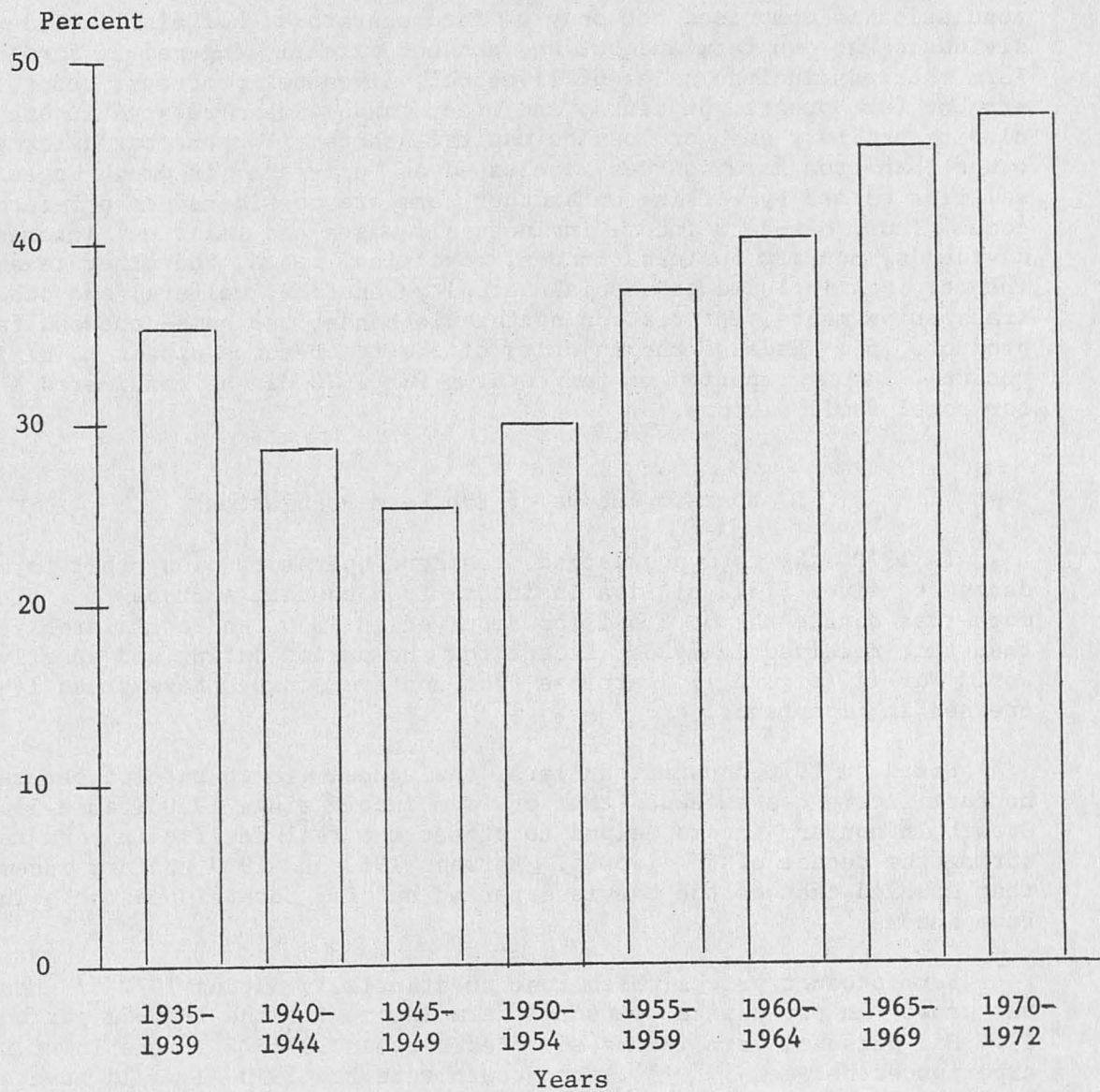


Figure 1. Total personal nonfarm income as a percent of total personal income of farm population, United States.

Source: Based on data from Farm Income Situation, FIS 222, Economic Research Service, July 1973

Table 1
Per Capita Personal Farm and Nonfarm Income for Selected Periods, 1940-72*
(1970 Constant Dollars)

Periods	Per Capita Income of Farm Population--			
	Farm		Nonfarm	
	Sources	Sources	Sources	Sources
	-----Dollars-----		-----Percent-----	
1940	438	252		
1949	894	417	8.3	5.8
1950	987	439		
1959	885	566	-1.2	2.9
1960	966	600		
1969	1,527	1,304	5.2	9.0
1970	1,554	1,359		
1972	1,734	1,529	5.6	6.1

* Source: Farm Income Situation, FIS 222, Economic Research Service, July 1973. Data are deflated by the Consumer Price Index.

Future growth in personal nonfarm income is also contingent upon many factors, particularly general economic growth. Although the U.S. economy looks strong, uncertainty still prevails over what will be the long-run consequences of the present energy shortage.

Off-Farm Earnings of Persons With Farm Income

The importance of off-farm earnings to farm people is also verified by data available from the Internal Revenue Service (IRS). Although the population represents all those reporting farm earnings for tax purposes, whether farm operators or not, the overlap in the data sources is large enough so that they are mutually supporting. However, an additional advantage of IRS data is the insight that can be gained into the sources of off-farm earnings.

In 1970, about 2.8 million persons reported farm income for tax purposes. Ninety-three percent, or 2.6 million persons, reported income from off-farm sources totaling about \$19.8 billion. This total is nearly \$6 billion above that reported by 3.0 million persons in 1966 [5, pp. 11-13]. About 43 percent of those persons with farm income reported farm losses in 1970 (table 2). Off-farm income was nearly twice as large among those

Table 2
Persons with Farm Income Reporting Off-farm Income and Amount from Specific Sources: Distributed by Source
and Persons Reporting Farm Profits and Losses, 1970 1/

Item	: Number : or : Dollars	: Wages : and : Salaries	: Dividends	: Interest	: Nonfarm : Business : <u>2/</u>	: Partner- : ship <u>2/</u>	: Capital : Gain or : Loss <u>2/</u>	: Other : Income : <u>2/</u>
	<u>Thousand</u>							
Persons with:								
Farm losses	1,207	75.7	13.4	56.7	16.3	6.8	33.5	16.6
Farm profits	1,633	50.9	11.7	56.5	8.5	3.6	38.2	8.8
All	2,840	61.4	12.4	56.6	11.8	5.0	36.2	12.1
	<u>Million Dollars</u>							
Off-farm income of persons with:								
Farm losses	13,064	66.5	5.8	6.1	9.6	3.9	8.1	<u>3/</u>
Farm profits	6,717	64.5	4.2	11.1	7.2	2.5	9.9	<u>3/</u>
All	19,781	65.8	5.3	8.0	8.8	3.4	8.7	<u>3/</u>

1/ Source: Special tabulations by U.S. Department of the Treasury, IRS, from the 1970 Sole Proprietorship Tax Model.

2/ Includes all persons reporting profits and losses, but the income proportions are based on net amounts.

3/ Net amount is negative.

reporting farm losses than those with farm profits. Thus, farm losses may be used by many to offset off-farm income thereby reducing total tax liability.

Wage and salary earnings were the largest component of off-farm income. About 61 percent of the persons reporting farm receipts in 1970 received earnings from this source (table 2). Just four years earlier, 1966, only 56 percent of those reporting farm receipts had wage and salary earnings. Earnings from this source totaled slightly over \$13 billion in 1970, up 41 percent (absolute terms) from that reported in 1966 [5, p. 13]. These earnings accounted for nearly two-thirds of the total off-farm income reported in 1970.

Interest was reported on over half of the 1970 returns. The proportions of off-farm income received as interest was relatively small when compared to that received as wages and salaries. While over a third of the returns had capital gains or losses, the proportion of total off-farm earnings, like interest, was generally small.

Although wage and salary earnings were the largest off-farm source, an important question is: How do wage and salary earnings compare with farm earnings?

Wage and Salary Earnings, The Largest Source

Two measures of income from farming are included in the income tax returns: (1) gross farm product sales, and (2) farm profits or losses. Product sales serve as a measure of farm business size, except when farm sales are shared by two or more persons. Profits or losses are preferable to gross sales in measuring a person's net farm income.

When farm profits or losses are compared with earnings from other sources, additional insight can be gained into the importance of farming as a major source of income.

Persons with Farm Profits

Net farm income comprised 45 percent of total net earnings from all sources among the 1.6 million persons reporting farm profits in 1970 (table 3). ^{6/} Slightly over one-third of total earnings were received as wages and salaries. About 20 percent came from the remaining off-farm sources.

Wage and salary earnings were the major income source among individuals with small farms--farm sales less than \$10,000 (tables 3 and 4). This should not be surprising because their need for additional income is more pressing, and their limited farm operations leave more time available for other work. Nearly 60 percent reporting farm profits had farm sales below \$10,000.

^{6/} Persons reporting farm profits in table 3 differ from those in table 2, due to rounding error.

Table 3
Net Earnings All Sources for Persons Reporting Farm Profits: Distributed by Source and Value of Farm Sales,
1970 ^{1/}

Value of Farm Sales	: : Persons : Reporting :	: Total Net : Earnings : All : Sources ^{2/}	: Net : Farm : Income	: Wages : and : Salaries	: Divi- : dends	: Interest	: Net : Nonfarm : Business	: Net : Partner- : ship	: Net : Capital : Gain
	Thousand	Million Dollars	Percent						
Less Than \$2,500	457	3,026	10.7	66.3	2.6	6.8	7.0	2.2	4.0
\$2,500-\$4,999	244	1,362	23.6	54.6	2.4	7.4	5.9	1.8	4.3
\$5,000-\$9,999	271	1,651	38.5	39.8	2.2	7.8	4.2	2.2	5.3
\$10,000-\$19,999	297	2,138	58.3	23.4	2.1	6.6	3.0	1.0	5.6
\$20,000-\$39,999	232	2,178	70.7	12.8	1.7	5.4	1.9	0.9	6.5
\$40,000-\$99,999	107	1,413	76.5	8.1	2.3	4.6	1.1	0.2	7.2
\$100,000 or more	24	541	76.2	6.8	3.2	5.6	^{3/}	^{3/}	8.2
All	1,632	12,309	45.4	35.2	2.3	6.4	3.9	1.4	5.4

^{1/} Source: Special tabulations by U.S. Department of the Treasury, IRS, from the 1970 Sole Proprietorship Tax Model. The "Other" income source, as shown in table 2, was excluded here because it added very little information.

^{2/} Total net earnings consists of farm profits plus amount of off-farm earnings.

^{3/} Losses exceeded profits.

Table 4
Average Farm and Off-Farm Earnings of Persons Operating for Profits: Distributed by Source and Value of Farm Sales, 1970 1/

Value of Farm Sales	: Average	: Average:	Average:	Average Off-Farm Income From-- <u>2/</u>					
	: Combined	: Off-farm:	Net Farm:	Wages	: Divi-	:	: Net	: Net	: Net
	: Earnings	: Earnings:	Income	and	: dends	: Interest:	Nonfarm:	Partner-	: Capital
	: All Sources:	<u>2/</u>	:	: Salaries:	:	:	: Business:	ship	: Gain
<u>Dollars</u>									
Less Than \$2,500	6,620	6,600	710	6,910	1,570	790	3,920	3,820	1,220
\$2,500-\$4,999	5,580	4,930	1,320	5,670	1,700	760	3,550	3,620	860
\$5,000-\$9,999	6,090	4,360	2,340	4,870	1,290	880	3,080	4,520	860
\$10,000-\$19,999	7,200	3,380	4,200	3,570	1,400	850	3,490	2,340	810
\$20,000-\$39,999	9,390	3,100	6,640	3,110	1,080	860	2,910	2,540	1,050
\$40,000-\$99,999	13,150	3,420	10,140	3,040	1,740	1,020	3,010	510	1,640
\$100,000 and over	22,520	5,000	18,080	5,510	2,610	1,910	<u>3/</u>	<u>3/</u>	3,740
All	7,540	4,670	3,420	5,220	1,480	860	3,480	2,900	1,080

1/ Source: Special tabulations by U.S. Department of the Treasury, IRS, from the 1970 Sole Proprietorship Tax Model. The "Other" income source, as shown in table 2, was excluded here because it added very little information.

2/ Average amounts are for those reporting.

3/ Losses exceed profits.

As farm size (sales) increases, the percentage of total net earnings received as wages and salaries declines rapidly (table 3). Net farm income replaces wage and salary earnings as the most important source of income on larger farms (table 4). There generally is less time available for off-farm activities for large farm operators and their families. Yet, it is interesting that individuals with farm sales of \$40,000 or more received almost a quarter of total net earnings from off-farm sources (table 3). The proportion of individuals having \$40,000 or more in farm sales is quite small--about 8 percent of all reporting farm profits.

Persons with Farm Losses

Wage and salary earnings comprised two-thirds of off-farm income among the 1.2 million persons reporting farm losses in 1970 (table 5). These earnings were by far the most important off-farm income source.

The importance of wage and salary earnings declined as gross farm sales increased. Persons with farm sales less than \$10,000 averaged more from wages and salaries than from the remaining off-farm sources (table 6). Above \$10,000, capital gains, dividends, interest, and nonfarm business receipts seemed to replace wages and salaries as the most important source of off-farm earnings. In particular, average partnership and dividend earnings were substantially greater than average wage and salary earnings among individuals reporting farm sales of \$100,000 or more. The number of persons which had gross farm sales of \$100,000 or more is quite small--about 0.7 percent of all persons reporting losses. The major proportion, 87 percent, had farm sales under \$10,000 (table 5).

Persons reporting less than \$2,500 worth of farm product sales averaged \$9,700 from combined sources but averaged \$11,350 from off-farm sources in 1970 (table 6). For those reporting more than \$2,500 in farm sales, average combined income declined up to the largest farm sales group. Thus, farm losses helped offset part of the off-farm earnings. Persons with farm losses averaged but \$900 more from combined sources in 1970 than did those with farm profits (tables 4 and 6).

It would be interesting to speculate on why persons had farm losses in 1970. Some insights into why farm losses are reported can be found in [4, pp. 11-12]. Without off-farm income, many persons could not sustain losses over an extended period of time. Thus, it is not surprising that off-farm earnings were nearly twice as large among those reporting farm losses as those reporting farm profits in 1970.

Implications

The level of farm income, which usually is closely associated with farm size, is often used as an indicator of the level of well-being of farm people. However, off-farm income has increasingly become a more important source of income to farm families. Not only do individuals with small farms rely heavily on off-farm earnings for family living but also, many with relatively

Table 5
Net Earnings All Sources for Persons Reporting Farm Losses: Distributed by Source and Value of Farm Sales, 1970 1/

Value of Farm Sales	: Persons : Reporting :	: Total net : Earnings : All : Sources <u>2/</u>	: Amount of : Off-Farm : Income	Amount of Off-Farm Income From-- <u>2/</u>					
				: Wages : and : Salaries	: Divi- : dends	: Interest	: Net : Nonfarm : Business	: Net : Partner- : ship	: Net : Capital : Gain
	Thousand	Million Dollars		-----Percent-----					
Less Than \$2,500	761	7,390	8,551	72.3	3.6	5.3	9.4	3.7	5.4
\$2,500-\$4,999	164	1,180	1,517	69.4	5.0	6.3	9.0	3.6	6.3
\$5,000-\$9,999	121	800	1,127	64.3	6.6	7.0	10.0	1.4	10.7
\$10,000-\$19,999	84	450	766	51.2	10.2	7.9	12.1	4.9	13.7
\$20,000-\$39,999	45	220	483	38.1	15.2	9.9	10.6	4.4	21.8
\$40,000-\$99,999	24	90	334	27.8	24.6	10.1	10.4	<u>3/</u>	27.1
\$100,000 or more	8	90	286	16.0	19.5	11.8	5.2	18.5	29.0
All	1,207	10,220	13,064	66.5	5.8	6.1	9.6	3.9	8.1

1/ Source: Special tabulations by U.S. Department of the Treasury, IRS, from the 1970 Sole Proprietorship Tax Model. The "Other" income source, as shown in table 2, was excluded here because it added very little information.

2/ Total net earnings consist of farm losses plus amount of off-farm earnings.

3/ Less than 0.1 percent.

Table 6
Average Farm and Off-Farm Earnings of Persons Reporting Farm Losses: Distributed by Source and Value of Farm Sales, 1970 ^{1/}

Value of Farm Sales	Average	Average	Average	Average Off-Farm Income From-- ^{2/}					
	: Combined	: Off-Farm	: Average	Wages	: Divi-	: Net	: Net	: Net	
	: Earnings	: Earnings	: Net Farm	and	: dends	: Interest	: Nonfarm	: Partner	: Capital
	: All Sources	: ^{2/}	: Loss	: Salaries			: Business	: ship	: Gain
<u>Dollars</u>									
Less Than \$2,500	9,700	11,350	-1,530	10,020	3,220	1,010	6,400	6,370	2,190
\$2,500-\$4,999	7,180	9,580	-2,070	8,590	3,670	1,040	4,950	6,900	1,620
\$5,000-\$9,999	6,570	9,840	-2,720	8,500	4,650	1,240	5,800	2,070	2,450
\$10,000-\$19,999	5,440	10,140	-3,730	7,670	6,480	1,650	8,110	5,180	2,570
\$20,000-\$39,999	5,030	11,950	-5,810	8,290	8,350	1,930	9,670	5,060	4,440
\$40,000-\$99,999	3,850	14,730	-9,820	8,440	15,470	2,360	8,210	1,460	6,470
\$100,000 or more	10,010	35,360	-23,210	12,560	24,210	6,550	7,220	28,970	16,490
All	8,460	11,140	-2,350	9,500	4,670	1,170	6,350	6,180	2,650

^{1/} Source: Special tabulations by U.S. Department of the Treasury, IRS, from the 1970 Sole Proprietorship Tax Model. The "Other" income source, as shown in table 2, was excluded here because it added very little information.

^{2/} Average amounts are for those reporting.

large farming operations have substantial off-farm income. Off-farm income appears to be one factor in helping to narrow the income gap between farm and nonfarm people [2].

Because many farmers have combined farming with a nonfarm job, their level of economic well-being is increasingly linked to economic conditions in the nonfarm sector. Thus, not only is farm policy important to farm people but also are public policies designed primarily for nonfarm sectors.

Today, farmers mix farming with nonfarm pursuits. Some people live in rural areas because they enjoy it and others because they make a living from farming. Thus, the question of who constitutes the farm population has become increasingly complicated. In addition, many nonfarm people own and control farm resources. Therefore, the concept of the farm population may be outdated because many people receiving farm income may be identified with nonfarm occupations. Although identifying people dependent on farming is not a brand new problem [1, 3], it should continue to command attention.

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