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Can We Cure Farm Poverty With Commercial Farm Policy?

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If poverty in the United States is erased, massive change will occur in the nation's rural areas. For this is where millions of poor Americans live and work. Approximately 26 million of our citizens are poor: one out of every eight persons.[*] Of these 26 million, half live in rural areas where they represent about 20 percent of all rural residents. Although 9 million of the 13 million rural are white, the **rate** of poverty among rural, nonwhite citizens is 55 percent.

The President's National Advisory Commission on Rural Poverty agreed that in 1967, "Rural poverty is so widespread and so acute as to be a national disgrace, and its consequences have swept into our cities, violently."

Most of the nation's 13 million rural poor do not live and work on farms. Eleven million of these poverty-ridden people live in small towns, villages, and in the open country. Generally speaking, their living conditions and prospects are among the most wretched anywhere in our society. But what about the 2 million poor persons who live on farms? The purpose of this article is to examine the poverty among the nation's farm population and to assess the prospects for alleviating it through existing national farm price and income support programs.

FARM POVERTY

The rate of poverty among farm people is even higher than for rural residents as a whole. About 23 percent of all farm people are poor, while the rate among nonwhite farmers is a shocking 64 percent. A four-person farm family is considered "poor" by the Census Bureau if its total money income was less than $3,034 per year in 1968.

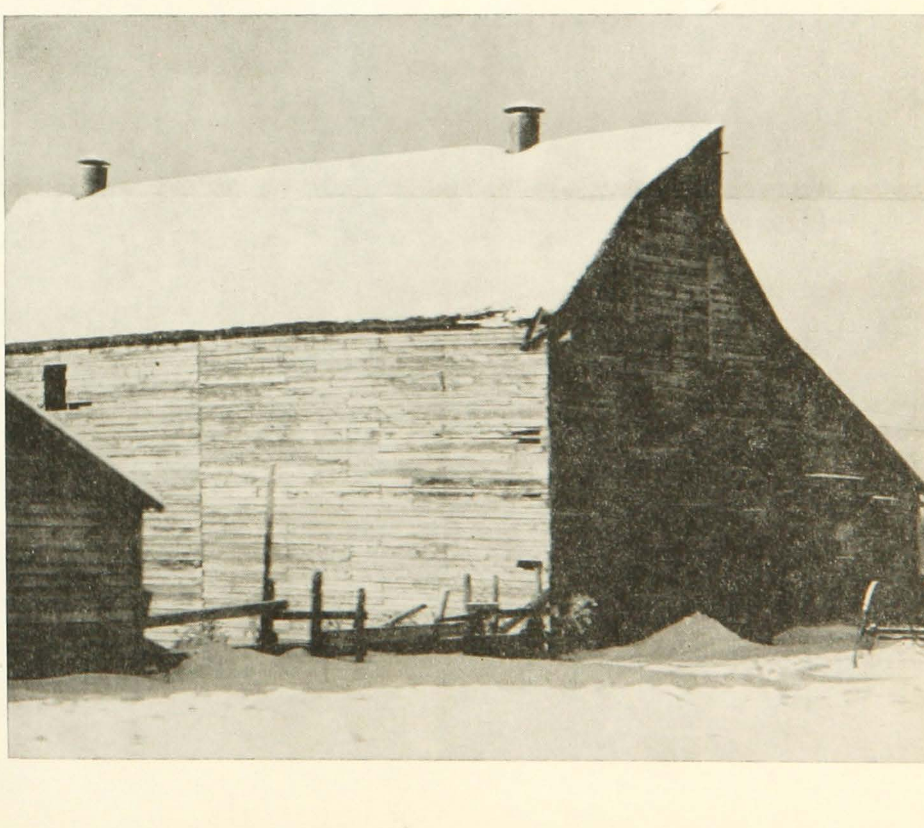
In 1968, the nation's nearly 11 million farm people lived and worked on 3 million farm units. Over the whole country, this is an average of three and two-thirds people per farm. Consequently, the four-person family unit usually used for income comparisons is reasonably appropriate for farms and farm family considerations. These 11 million farm residents were scattered over production units that differ almost as much from each other as General Motors differs from a local garage.

The first two columns of table 1 contain data that illustrate how the farms of this country were dispersed according to the value of farm product sales in 1966. (Data for 1966 are used here because the special calculations discussed below are not available for later years.) More than half of the farms produced less than $5,000 worth of food and fiber products in 1966. Many farms in this group are part-time and retirement farms. Yet they provide a dwelling place and some cash income for their operators.

Notice that over 68 percent of the nation's farms generated **less** than $10,000 worth of gross sales. It is here in these two low gross income categories that we would expect to find most of the rural farm poor. A glance at column 4 confirms it. For farms grossing less than $5,000, net farm income averaged only $1,071. Unless families on farms of this size have substantial nonfarm income, they are bound to be poor. Moreover, we also can expect that at least some farms in the $5,000-$9,999 gross sales category generated family incomes below the poverty line. It is estimated that only half of the farmers grossing less than $10,000 have additional income from nonfarm sources.

The 2 million farm poor probably live on about 500,000 separate farms. These families are mostly located on farms that gross under $10,000, with the heaviest concentration in the less than $5,000 category.

Having located most of the rural farm poor in terms of gross sales, now consider



[*] The data and some background information for this article were drawn from *The People Left Behind*, Report of the National Advisory Commission on Rural Poverty, Washington, D.C., Sept. 1967, and from U.S. Bureau of the Census, *Current Population Reports*, Series P-60, No. 68, "Poverty in the United States: 1959 to 1968," U.S. Government Printing Office, Washington, D.C., 1969.

Table 1. Number of farms, returns from farming, and parity returns from farming, 1966*

Value of sales	Number of farms: Thousands (1)	Number of farms: Percent (2)	Percentage of total farm sales (3)	Net farm income per farm (4)	Parity returns per farm† (5)	Actual returns as percentage of parity‡ (6)
Under $5,000	1,769	54.4	6.7	$1,071	$3,439	31
$5,000-$9,999	446	13.7	7.9	3,989	6,453	62
$10,000-$19,999	510	15.7	17.1	6,869	8,087	85
$20,000 and over	527	16.2	68.3	17,539	13,579	129
All farms	3,252	100.0	100.0	5,049	6,224	81

* Source: USDA, *Parity Returns Position of Farmers*, Senate Document No. 44, 90th Congress, 1st Session, U.S. Government Printing Office, Washington, D.C., Aug. 1967, pp. 22-23.

† These are estimated returns that could have been earned elsewhere in the economy by labor and capital resources in each farm category. See the original source for complete details and other comparisons, especially pages 21-26.

‡ Column 4 as a percentage of column 5.

their contribution to the nation's food and fiber supplies. Column 3 in table 1 contains data indicating that only about 15 percent of the nation's total farm output in 1966 was supplied by the 68 percent of farmers grossing under $10,000. Look at the under $5,000 group alone. It contained over half the farms in the United States, yet produced less than 7 percent of total farm output in 1966. On the other hand, almost 70 percent of all farm sales were generated by only 16 percent of the farm units, those that gross more than $20,000.

POVERTY AND PARITY INCOME

Farmers who control few productive resources in agriculture and whose contribution to total output is small are bound to be poverty-stricken. The small farmer in this country is likely to be elderly, physically handicapped, or poorly educated. Hence, he is not likely to be able to gain access to land, capital, and other resources needed to form an adequate farm unit. Arthur Mauch, an expert in this field from Michigan State, recently wrote:

> *We must face the fact that most of our so-called farmers have farms that are just too small to provide an adequate volume of business to make it possible to get an income comparable to that obtained by those employed in non-farm activities. They make very little contribution to our economy. Hence, while they are poor, we cannot say that they necessarily are underpaid.*

On the other hand, a recent study by the U.S. Department of Agriculture indicates that, according to several criteria, small farmers are indeed underpaid, even though they make little contribution to the economy. Column 5 of table 1 provides data on one particular computation of parity (or "fair") income by farm size. Parity income, in this context, is the estimated returns that **could** have been earned elsewhere in the economy by the labor and capital employed in each farm size category during 1966.

This particular series of parity incomes is one of several alternatives investigated in the study. This alternative valued family and hired farm labor at nonfarm wage rates and evaluated farm capital at net rental rates applicable to 1966. Capital gains are excluded from this parity income calculation.

Column 6 of table 1 contains percentage figures that show how actual average farm income in each category compared to the computed parity returns for that category. Actual income was **less** than parity income for all groups grossing under $20,000 annually. The lower the gross income, the lower was the ratio. Farms grossing over $20,000 and providing 68.3 percent of total national farm sales achieved incomes in excess of parity according to this particular scale.

To achieve parity, the net income of farmers grossing under $5,000 would have to be more than tripled; net income for the $5,000-$9,999 group would have to be increased by more than half; and, for the $10,000-$19,999 group, net income would need to advance nearly one-sixth of its 1966 level.

POVERTY AND FARM POLICY

Keeping these relationships in mind, consider the nature of our traditional commercial farm programs. In the thirties, a link between farm price support and farm income support was forged that has yet to be broken. The policy tools for providing income support to farmers have operated mainly through the marketplace by means of direct and indirect supports for farm prices.

Roughly speaking, income support to farming channeled through the price system provides income benefits in direct relation to the capacity that individual farmers have to produce and sell commodities. Most controls on production, when attempted, have been relatively weak and, in recent years, voluntary. Moreover, income benefits derived from participation in production control programs have been in proportion to either historic or potential production capabilities.

Thus, income support through the market mechanism produces benefits to those who can use the mechanism; that is, to farmers with access to and control over productive resources in agriculture. Price supports on commodities provide little benefit to those who have little to sell.

Table 2 shows the extent of average price changes needed in 1966 by each of the gross sales categories to return 100 percent of parity income. A doubling of average farm prices would not have solved income problems in the group that contains most impoverished farmers. And, for the largest of the five groups, parity income might even be consistent with a somewhat lower average price level than existed in 1966.

Attempts to alleviate income problems of poor people living on small farms by making the prices of farm commodities sufficiently high through government programs is bound to be expensive and wasteful.

The expense would occur either as higher government costs, higher food and fiber prices to consumers, or both. The waste from this sort of policy would occur as windfall gains to farmers in the larger size categories. Imagine the consequences, economically and politically, if the net incomes earned by farmers in the lowest of the gross sales categories were raised anywhere near parity by higher prices or income payments based on productive capacity.

Table 2. Percentage changes in prices received by farmers needed to provide 100 percent of parity returns by gross sales categories, 1966*

Value of sales	Required percentage change in prices received†
Under $5,000	+ 170
$5,000-$9,999	+ 38
$10,000-$19,999	+ 10
$20,000 and over	− 9
All farms	+ 11

* Source: USDA, *Parity Returns Position of Farmers*, Senate Document No. 44, 90th Congress, 1st Session, U.S. Government Printing Office, Washington, D.C., Aug. 1967, p. 25.
† Assuming no significant change in volume sold.

The current debate about limiting price support payments to individual farmers would seem tame compared to the rancor that would be generated by serious proposals to deal with farm poverty in this way. The conclusion is unavoidable: we simply cannot solve or even substantially ease the desperate financial plight of small, poverty-ridden farmers through our current system of farm price programs, all of which provide benefits linked to productive capacity.

This apparent dilemma has led many people to agree with economist T. W. Schultz, who argues that:

> . . . *behavior of rural people, their representatives, and their institutions implies a materialistic bias in favor of plants, land and animals against people.*

Observations like this, while provocative and timely, have also convinced some that the present farm program network is somehow oppressive and detrimental, by its existence, to low income farmers and the rest of the rural poor.

Although no one knows what U.S. agriculture would now look like if farm price and income support programs had never existed, economists do know the general consequences of an abrupt end to these programs. A number of studies suggest that net returns to all farmers in the absence of government supports would fall between 25-60 percent in the short run. In particular, it would reduce prices and incomes to small farmers for the little they have to sell and would provide nothing in return.

Of course, it can be argued that elimination or curtailment of commodity support programs in agriculture would permit the funding of other programs directly beneficial to the rural poor. This is correct, but it is equally true for reductions in any ongoing government program such as defense or space exploration.

There are many good and urgent reasons for revising our commercial farm price programs, but solving the poverty problem in agriculture is **not** one of them. That is the main point of this discussion: No amount of tinkering with a system designed to stabilize and support prices of commodities can solve the problems of farmers who have little to sell and whose prospects of getting enough resources to increase production to profitable levels are slim.

Perhaps some farmers now in the smaller size categories can escape poverty by growing larger through better access to credit, planning assistance, management training, and advanced technical know-how. A few, but not many, may travel this route. One recent estimate is that only about 10 percent of today's low income farmers can hope to farm their way out of poverty. But what about the majority of low income farmers? Are they trapped, or can rural farm poverty be alleviated?

POSSIBLE SOLUTIONS

The solution to rural farm poverty is essentially the same as that for urban poverty: jobs and money.

The first and perhaps the most fundamental to all proposed solutions is a healthy economy. Fiscal and monetary policies that provide full employment, encourage investment, promote efficiency, and accelerate growth provide the setting in which poverty can be defeated.

For people who can and wish to leave farming and other low-paying rural work, specific mobility-enhancing programs can be developed. These include training courses in vocational and high schools that prepare young people for good off-farm jobs.

Income payments to assist people in the transition from farm to nonfarm jobs could ease the human strain and tension that accompany major vocational and geographic changes.

Improved information and employment-locating services in rural areas would help to match people seeking work with available jobs.

To help small farmers who wish to leave farming, improvements in programs to help retire land and capital from small unprofitable farms would be an alternative to leaving these resources in agriculture and allowing them to act as a drag on people who otherwise might cease low income farming.

Not all of the adjustments out of unprofitable farming need to involve substantial geographic mobility. In fact, there is a growing feeling that the turbulent social conditions in large cities are aggravated by continuing rural-urban migration. Some experts feel that the migration flow should even be reversed.

Consequently, it is possible that some industries might be encouraged, through future policy, to move to selected growth centers away from huge metropolitan areas. To the extent that these industries might be inefficiently located, at least at the outset, our economy would sustain some costs in lower real output and possibly slower growth. But these might be costs we would be willing to pay in the interest of other social objectives. Yet holding people on small farms through more attractive versions of our present price support programs is clearly more inefficient in terms of the benefits that would be bestowed on already commercialized farms and considering the higher prices and government costs that would be sustained.

Many low income farmers are "boxed in." They could not leave agriculture even if they wished. They are elderly; they lack skills and training for nonfarm jobs; they are in poor health.

Helping these individuals escape the cruelties of poverty involves devices and programs that are being advocated and applied to poverty elsewhere. Improved and expanded social security and health programs are needed. Income assistance and negative income tax proposals are now emerging to help ease the lot of these persons. (Next month's *Minnesota Agricultural Economist* will carry a discussion of the new income proposals.) Expanded and more liberal food aid programs can and are being developed for adults and children trapped in both rural and urban poverty.

These and similar approaches are the answers to poverty problems, both on and off farms. To be effective, they must be applied without discrimination, racial or otherwise. The problems of poverty are not easy to solve, nor will they go away by themselves. In 1915, humorist Frank Hubbard summed it up this way:

> *It's no disgrace to be poor, but it might as well be.*

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IN PERSPECTIVE

Poverty: Nine Years of Experience*

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Six years have gone by since the War on Poverty was declared by President Johnson in his 1964 State of the Union Address. Poverty now has become but one among several major issues on the nation's political agenda. In some ways, it has become yesterday's issue. Yet poverty as a condition of life remains for many, as do the vestiges of the war begun with the purpose of eliminating it. This article reviews the progress we have made over the past 9 years in reducing poverty.

In 1959, there were 39.5 million Americans defined as poor; approximately one American in every five was poverty-stricken. In 1959, gross national product (GNP) stood at $476 billion (1958 prices) and the unemployment rate was 5.5 percent.

By 1968, the number in poverty had dropped by almost 36 percent to 25.4 million people; approximately one person in seven remained in poverty. GNP had grown by about 49 percent, taking rising prices into account, while the unemployment rate had declined to 3.6 percent.

We are not likely to match this impressive record again. Economic growth, along with the poverty programs, has lifted the "easiest to lift" out of poverty. Those remaining in poverty will take more "pulling."

Let us examine the anatomy of poverty and how it has changed over time. We shall look closely at the record for families and neglect the single poor person. Data on the single poor person are unavailable, although we know that relatively more single persons were poor in 1968 than in 1959.

Let us first look at families classified by sex of the family head and by color. While only 6 percent of all white families headed by males were poor in 1968, 19 percent of all nonwhite families headed by males were poor. Similarly, while about 25 percent of all white families headed by females were poor in 1968, 53 percent of all nonwhite families headed by females were poor. These poverty rates all have declined since 1959, but those for males and for whites have declined much more rapidly than those for females and for nonwhites.

Nonwhite families headed by **females** are most poverty-prone and have escaped from poverty least rapidly. **White** families headed by **males** are least poverty-prone and have escaped poverty most rapidly. Our labor market, education and training systems, housing market, and transportation systems all work to produce this result.

Females are paid lower wages and have fewer kinds of jobs available to them than males. Moreover, females with families typically must cope with the additional burdens of having to find and finance daycare for their families if they are to work.

Nonwhites, especially Black and Indian Americans, face discrimination in the labor market and must cope with the handicap of inferior education and training obtained in segregated (however achieved) schools. Moreover, nonwhites typically live in segregated areas of cities and in rural areas where fewer jobs exist and where the employment growth rate is less than elsewhere. And they typically have less access to transportation to where the jobs are.

Another comparison is by type of participation in the labor force. From 1959 to 1968, the percentage of all employed families in poverty declined by half, falling to 6 percent. Nineteen percent of all unemployed families were poor in 1968, a drop of 43 percent from 1959. And of all families not in the labor force in 1968, some 26 percent were poor, compared with 41 percent in 1959. Clearly, those families that participated in the labor force, with or without help from the various poverty programs, shared far more in national economic growth than those who remained outside the labor force.

Of special interest are farm residents and families of farmers and farm laborers. Poverty remains more prevalent among farm families than among nonfarm residents, and more prevalent among farming families than among other occupational groups. Changing to a higher paying occupation, either within the community or by relocation in areas with more job opportunities, is an important means that farm residents, farmers, and farm laborers have used in escaping from poverty. In the article on the preceding pages, support programs have been shown to be ineffective antipoverty programs.

A rapidly expanding economy, and consequently rapidly expanding job opportunities and incomes, appears to have been the most important antipoverty program in the past 9 years. Of the families that remain poor, 24 percent have elderly heads, 35 percent have female heads, 36 percent have at least five family members and hence have many children, and over 29 percent are nonwhite. All of these represent groups that will derive few benefits simply as a result of national economic growth. Other kinds of progress **besides** a rapidly expanding economy are now required to lift such families out of poverty. ■

*Data are from U.S. Bureau of the Census, *Current Population Reports*, Series P60, No. 68, "Poverty in the United States; 1959-1968."

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