April 10, 1980 No. 176a

FARM POVERTY, FARM ENTRY PROBLEMS AND THE UWEX SMALL FARMS PROGRAM

by

William E. Saupe

FARM POVERTY, FARM ENTRY PROBLEMS AND
THE UWEX SMALL FARMS PROGRAM*

William E. Saupe**

Congressman Kastenmeier, Congressman Baldus, Chairman Everson, ladies and gentlemen. Thank you for the invitation to participate in this grass roots hearing on the Family Farm Antitrust Act (H.R. 1045).

I bring little expertise and experience that deals directly with the issue of nonfarm corporations engaging in agricultural production, and the threat that these economic forces pose to the family farm. What I do share with the sponsors and supporters of the Bill is a concern for the economic and social well-being of family farms in America, particularlarily those who are the most disadvantaged, and thus most vulnerable to additional competition. The contribution of this report is first to provide some documentation of the economic problems of two subgroups of family farms. These are low income or "poverty level" farms, and farm entrants. Second, it contains comments on the impact of on-farm education programs that have been effective in increasing the economic strength and well-being of such farm families, making them more secure against any competition, from nonfarm corporations or others.

Low Farm Income and Farm Poverty in Wisconsin

A fundamental point in discussing farm income problems or poverty is how "low income" or "poverty" are to be defined. The federally established guidelines for comparing family needs with family income to establish a standard for poverty are used here. These are based on the cost of "nutritionally adequate but sparse" diet and the assumption that food costs are one-third of total family living costs for the poor. These federal poverty thresholds are adjusted annually to reflect changes in the cost of living.

---

* Invited testimony at grass-roots hearing on H.R. 1045, Sauk City, Wisconsin. April 7, 1980.

** William E. Saupe is a professor of Agricultural Economics, College of Agricultural and Life Sciences, University of Wisconsin-Madison, and Division of Economic and Environmental Development, University of Wisconsin-Extension, and a staff member of the Institute for Research on Poverty.

For an example farm family, with four members in 1980, "poverty level income" would allow fifty cents per person per meal plus three dollars per day for all other living expenses. From this perspective, most persons will agree that being in poverty represents a very disadvantaged economic situation for the family.

Using that definition, farm and rural poverty in Wisconsin have been studied in the past, and the next detailed studies will be based on the current Censuses. What is shown by these farm poverty studies in Wisconsin?

a) In the earliest study, using 1964 data, about 25 percent of Wisconsin farm persons were in poverty.

b) By 1969, this had dropped to about 13 percent in poverty. The percentage tended to be lowest in areas with urban centers, and averaged about ten percent in the Second Congressional District and about sixteen percent in the Third Congressional District. A key point was that large numbers of farm persons were in poverty in all agricultural counties.

c) In 1975, there were two separate studies of farm poverty. Both showed the percentage of farm persons (and the number of farm persons) in poverty to have increase to about 18 percent, higher than it was in 1969. This is a matter of some concern, in light of recent federal programs to alleviate poverty, support farm commodity prices, and aid farmers through FmHA farm credit activities.

An explanation for this paradox of public programs but increased poverty may be found in examination of the distribution of benefits from the most important government income support programs. For example, farmers are generally not eligible for the Aid to Families With Dependent Children (AFDC) benefits, which go primarily to single parent or unemployed parent families with dependent children. To be eligible for Supplemental Security Income (SSI) a person must be eligible to receive Social Security benefits for reason of age or disability, so most farmers are ineligible. Low income farm families are eligible for Food Stamps, but participation by eligibles in rural Wisconsin in the mid-70's was one of the lowest rates in the nation.

Furthermore, direct benefits from agricultural commodity programs go only to the producers of those commodities, and the payment received is tied closely to the volume of production. Smaller farmers are helped by such commodity price programs, but with a low volume of production, their payment may be quite small. The Farmers Home Administration (FmHA) credit program for limited resource farmers was constrained by their budget to about 1,200 families in the nation in 1979, a small part of the total eligible.

In the absence of any federal programs, it is likely that farm poverty would be more prevalent. Nevertheless, it is clear that national farm commodity and welfare programs have neither eliminated Wisconsin farm poverty nor reduced it to the levels of poverty among the remainder of the nation's citizens. The circumstances of the farm families who are poor are such that they are vulnerable to the kinds of economic pressures that are the concerns of the sponsors of the "Family Farm Antitrust Act of 1979."

The Farm Entry Problem in Wisconsin

A second group of family farmers in Wisconsin who are particularily vulnerable to economic pressure are recent and potential farm entrants. Since the second World War, farming opportunities have become available to only about one-third of all farm boys in the USA. A 1960's study of 375 Wisconsin farm-reared men a decade after they graduated from high school found 60 had entered farming but only 37 survived the first ten years. During the 1970-1980 decade, for every three Wisconsin farmers who could be expected to retire or die four Wisconsin farm males reached age 25 (were potential entrants). But many of the "available" farms were consolidated with neighboring farms. That plus interest in farming by urban persons means there were between 9,000 and 20,000 more potential entrants than farms available by retirement or death in Wisconsin during the 1970's.

All prospective farmers face the problem of gaining control of enough farm resources to generate adequate income and an acceptable level of living. While solving this problem and getting started in farming have always been difficult for most entrants, it has become particularly difficult for Wisconsin dairy farmers in recent years. Currently, it is difficult for low equity entrants to make the required interest and principal payments on their debts and still have a residual to provide an acceptable level of living due to the farm resources/farm income/interest rate relationships.

As an example we compared the actual net income generated by a group of full time dairy farmers in 1978. After paying cash operating expenses, they earned a residual of $20,700 for principal payments, family living expense and capital replacement in 1978. A hypothetical unskilled farm entrant, one who would be below average in technical efficiency (and milk production) was budgeted to fall $13,400 short of meeting cash expenses in those circumstances, and have thus nothing for family living, etc.

Farm entrants try many strategies to overcome these grim circumstances. These include starting on a small farm, combining farm and nonfarm employment, renting farmland, and buying land under land contract financing. There has been public intervention on their behalf, including FmHA limited resource farm loans and state programs initiated in North Dakota, Minnesota and in the Canadian province of Saskatchewan. But farm entry problems remain an issue and farm entrants are particularily vulnerable to the kinds of competition and economic power seen by the sponsors of this Bill.

Intensive Education Programs for Small and Beginning Farmers

There is an alternative that does improve the economic well-being and strengthen the position of poverty level farm families and farm entrants. These are intensive on-farm education programs in farm management and production. In Wisconsin and some thirty other states there are such programs for small and beginning farmers. They have improved the economic well-being of the farm family participants, and strengthened their competitive position in the agricultural sector. They are usually called "Small Farms Programs" or "Limited Resource Farm Programs," but whatever the name the clientele are farm families who can gain from intensive on-farm education.

In Wisconsin, the University of Wisconsin-Extension began such a program in southwest Wisconsin (Crawford, Richland and Vernon counties) in 1974 managed by Maynard Nelson. A second program was begun in Taylor, Marathon, Wood and Portage counties in 1975 and is managed by Larry Fitzmaurice. The Community Action Agency in Trempealeau County (Whitehall) has sponsored a similar program since 1968, now under the direction of Lon Hillman. Some VTAE districts have programs that focus on this clientele, e.g. LaCrosse.

The programs involve twice-monthly or oftener farm visits by professional or paraprofessionals to deal with farm production, farm financial management, and family living problems. Currently, such programs by all agencies serve about 500 farm families in Wisconsin.

Substantial increases in net farm income have been associated with the participation in the University of Wisconsin-Extension Small Farms Program. For example, one group of 15 families earned $5,600 in the year before they entered the program, and two years later averaged $9,700. It is touchy business trying to sort out how much of the income change was "caused" by the Extension program. But we have documented "before" and "after" uses of selected farm practices that were recommended to program participants by the UWEX staff. The comparisons for a recent group showed a ten-fold increase in dairy cow production testing, a ten-fold increase in forage analysis and dairy ration balancing, a tripling of acres fertilized according to soil test, and a doubling of the use of farm records and financial analyses. The increased use of these improved practices, resulting directly from being in the Extension Small Farms program, gives us confidence that some important part of the increase in income was also caused by the Extension program.

Conclusions

Two subgroups of farm families are particularily vulnerable to the economic pressures of interest to the sponsors of this Bill. They are the farm families in poverty and recent or potential farm entrants.

Among the public sector programs that increase the economic well-being and economic strength of such families are the Extension programs for small farms in Wisconsin and many other states. Currently small in scale and of a demonstration or experimental nature, they remain a powerful tool for strengthening and improving the economic viability of these most-disadvantaged of family farms.

Again, thank you for the invitation to participate.