INCOME LEVELS OF AUSTRALIAN FARMERS. I.

(W.H. Pawley).

The level of incomes among farm groups is a matter of primary importance in the economics of rural industries and certainly the most important factor affecting the welfare of farmers and their families. What do we know about income levels among Australian farmers?

The annual available net income of any farmer is the major factor determining his family's standard of living and his ability to provide amenities. It determines in large part the extent to which he can make provision for the general and technical education of his children and afford such medical and dental attention as may be needed, and so has a major bearing upon the level of efficiency of the next farm generation. It is also an important factor in present efficiency, because a farmer on a depressed living standard cannot afford either the capital or the long-range planning necessary for efficient production, even if his spirit is not broken by his conditions of life. Low income levels among individuals or groups therefore tend to perpetuate themselves.

One way of securing information on farmers' incomes is by the study of individual cases, so selected as to provide as representative a sample as possible for a given industry or district. This, however, is a long-range and painstaking task. Much illuminating material on income levels among farmers may be obtained from official statistics *, despite the necessity for using broad groupings.

What Do We Want to Know?

It is the purpose of this, and succeeding articles, to use these statistics as raw material from which to fashion a number of pictures that tell their story in understandable terms. Is it possible to find out how much farmers as a whole earn, compared with other groups in the community? Has the aggregate income fund accruing to farmers been increasing or decreasing over the years? How do the net earnings of farmers compare on a man for man basis with wage-earners or business men? Do farmers in some industries do better than farmers in others? How do incomes of farm-operators compare with those of employees? Those are the questions to which answers are needed.

The first thing to notice is that we should not, strictly speaking, talk about the income of farmers, but only of the income produced by *farms*. Farmers may receive income from all kinds of

* Production Bulletins (Parts II) published by Commonwealth Bureau of Census and Statistics.

sources besides their farms, such as dividends on shares in a company or interest on government bonds. These do not concern us here. Equally, much of the net income produced by farms may, and does, slip through farmers' hands to others, as interest, rent or repayment of debt. Some account is taken of the second point at a later stage.

It is also necessary to distinguish clearly between the gross income and the net income produced by farms. The market value of the crops and livestock products coming off Australian farms each year constitutes the annual gross farm income of Australian farmers. Out of this gross income fund it is necessary to meet all production and marketing expenses, including depreciation. The concept of net income requires more careful thought. From the point of view of the individual farmer, wages, interest and rent are costs equally with such items as fertiliser, kerosene and wear and tear on machinery. But from the point of view of the whole rural economy only those expenses which represent the destruction of some physical resource are a cost. Wages of rural employees, for instance, constitute their share of the income produced from the farm. The difference between the gross value of production and the value of the resources destroyed in the process of production constitutes the net income fund out of which the claims of employees and sharefarmers, mortgagees and the Crown must be met. The balance is the income available to farm operators for current living expenses and capital accumulation.

The Gross Income Fund.

The starting point in the study of rural income is the gross value of production. This is the flow which sets the limit to the size of the streams which branch off from it and it is the fluctuations in gross income, rather than any changes in real costs or claims of other producers or capital owners which lead to fluctuations in the available income of farm operators. It is important that this fund be not only as large as possible but be also a stable one. Under ideal conditions it would increase steadily from year to year. It is interesting to compare this ideal of stability and growth with the actual conditions over the past thirty years as depicted in the attached diagram.

It is evident that the gross income fund has been anything but stable. To some extent this is due to alternation of good and bad seasons, but study of the graph shows that seasonal influences have had a minor effect compared with changes in the price level. For instance, the index of prices of rural products rose from 774 in 1914 to 1196 in 1919/20*. Again, it fell from 914 in 1928/29 to 546 in 1932/33 and then rose to 795 in 1936/37. It is these cyclical swings in prices which have caused the really serious fluctuations in income.

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* Index figures are obtained by equating to 1000 the average of the prices of all rural products during the period 1923/24 to 1927/28.

Studied from the point of view of farm income, the history of the last thirty years falls readily into five periods:

(i) First, there are the years just prior to the World War of 1914/18. At this time Australian farms were producing a gross income of somewhat over £100 million a year.

(ii) Second, there is the war period. In the place of the previous stability, a period of rapidly expanding incomes was ushered in, in 1915, and lasted until 1920. By this time farmers' gross returns from their crops and livestock were double what they had been six years earlier !

(iii) After the war come nine or ten years of comparative stability. Although there are large fluctuations from year to year, these are small compared with the changes in the decades before and after the nineteen-twenties. Average income during these years was about £250 million.

(iv) This third period came to an end in 1929, when a world-wide depression affected Australia. Farmers' receipts tumbled rapidly until 1932 and then climbed more slowly back to the 1928/29 level.

(v) Finally, there has been another period of comparative steadiness in gross incomes, commencing with the 1936/37 season and continuing until 1941/42. Gross income in the last year for which figures are available, 1942/43 season, reached an all-time high.

Income at Constant Prices.

So overwhelming is the influence of price levels on rural income that it is plainly impossible to draw any conclusions from Diagram 1 as to the long-term progress of our rural industries, as one might well be tempted to do. One or two examples will suffice to indicate the deceptiveness of that diagram as a measure of progress. The average price of all products sold by Australian farmers was twice as high in 1920 as in 1912 and hence the volume of production must have been much the same in each year. Again, in 1930/31 the average level of prices was much the same as in 1912 and about half the 1920 level. It is evident that while farm income was considerably lower in 1930/31 than in 1920/21, the volume of production must have been appreciably higher.

This suggests that we might learn some interesting things about the development of our rural industries if we could exclude the influence of price changes from the gross income series. This can be done by using as a measure of price changes the index of prices of all farm products. In theory at least, if not in practice, the villain of unstable prices can be removed from the stage. It is proposed to use the average price level for the five seasons from 1923/24 to 1927/28 as the measuring rod, because of the high degree of price stability over this period.

The second diagram shows Australian gross farm income measured in 1923/24 to 1927/28 prices: This diagram tells a quite different story from the first. Four things stand out:-

(i) Australia's farmers have been producing more in recent years than ever before. Gross farm income has risen from £200 million prior to World War I to over £300 million in the nineteen thirties. Record season so far was 1939/40.

(ii) In the main it is a picture of steady progress. Year to year fluctuations have mostly been due to the weather. The disastrous drought and wheat failure of 1914 stands out. So does the 1940 wheat failure.

(iii) The most rapid growth occurred in the early depression years. To what extent this was due to farmers producing more to make up for lower prices, and to what extent it was due to farms created after the last war reaching full development at this time it would be hard to say. It is interesting that no special spurt in production directly due to soldier settlement can be seen anywhere.

(iv) The growth of our rural industries was arrested by the 1914/18 war. In fact, production declined steadily from 1915 to 1919/20. As soon as labour returned and material supplies became more abundant the lost ground was quickly made up. But it is probable that production would have been still higher by 1922 if there had been no war.

(v) Production has been better maintained during the present than the last war. Despite more intensive mobilisation than in 1914/18 the over-all volume of rural production has been higher during the first four years of war than prior to 1939. This is a great tribute to the farming community and also shows that much of the criticism directed at our wartime organisation is rather one-sided.

There is not, of course, any conflict between these two graphs. They are describing two different things. As a statement of the actual income received by the farming community the first is quite correct. In other words an increase in income is equally beneficial to the farmer whether it is due to higher production or to higher prices - provided the prices of the things the farmer has to buy do not rise, too.

Which Is Our Biggest Industry?

So far we have "lumped" all Australian farmers together. But how much of the gross income fund goes to dairyfarmers, how much to agriculturalists, how much to graziers? Have some industries been growing faster than others?

It has often been said that Australia is carried on the sheep's back. The third diagram suggests that while this is somewhat of an exaggeration there is much truth in it. Nearly half the total wealth produced by the land comes from the pastoral industries. Sheep are not, of course, our only pastoral industry. Beef cattle also fall into this class. But not more than £1 in every £4 or £5 of pastoral revenue comes from cattle, compared with £4 out of every £5 from sheep. Rabbits also make their modest contribution to our pastoral income !

The agricultural group is a very mixed bag indeed. Wheat is by far the most important crop, contributing about £1 in every £3 in an average year. But other important crops include sugar-cane, fruit, vegetables and fodders. "Dairying and farmyard" covers eggs and poultry, and also beekeeping, as well as the production of butter, cheese and fresh milk.

Perhaps the most remarkable thing that this diagram shows is the absence of change. During thirty years in which Australia has developed enormously, and the world has gone through changes unparalleled in history, the relative importance of grazing, farming and dairying in our rural economy has altered very little indeed. In 1939, as in 1909, the order is pastoral industries first, agricultural second and dairying third. However, if we compare the early years with the most recent it will be seen that the gap between first, second and third places has grown narrower. There has, in fact, been a persistent tendency for the proportion of gross farm income produced by dairying to increase; and an equally persistent tendency for the pastoral industries' share to decrease.

This contrast is highlighted in Diagram 4. The first column depicts the average share of each industry over the pre-last war years from 1907 to 1914. At that time £49 of every £100 of wealth came from the pastoral industries and only £17 from dairying and poultry. In the last five years before the present war the shares were £41 and £23, respectively. This is a sign that our rural economy is growing up. It depends less on primitive forms of land-use and more on intensive use of land. There is reason to expect this trend to continue.

DIAGRAM I.

Gross Farm Income – Australia – All Rural Industries.

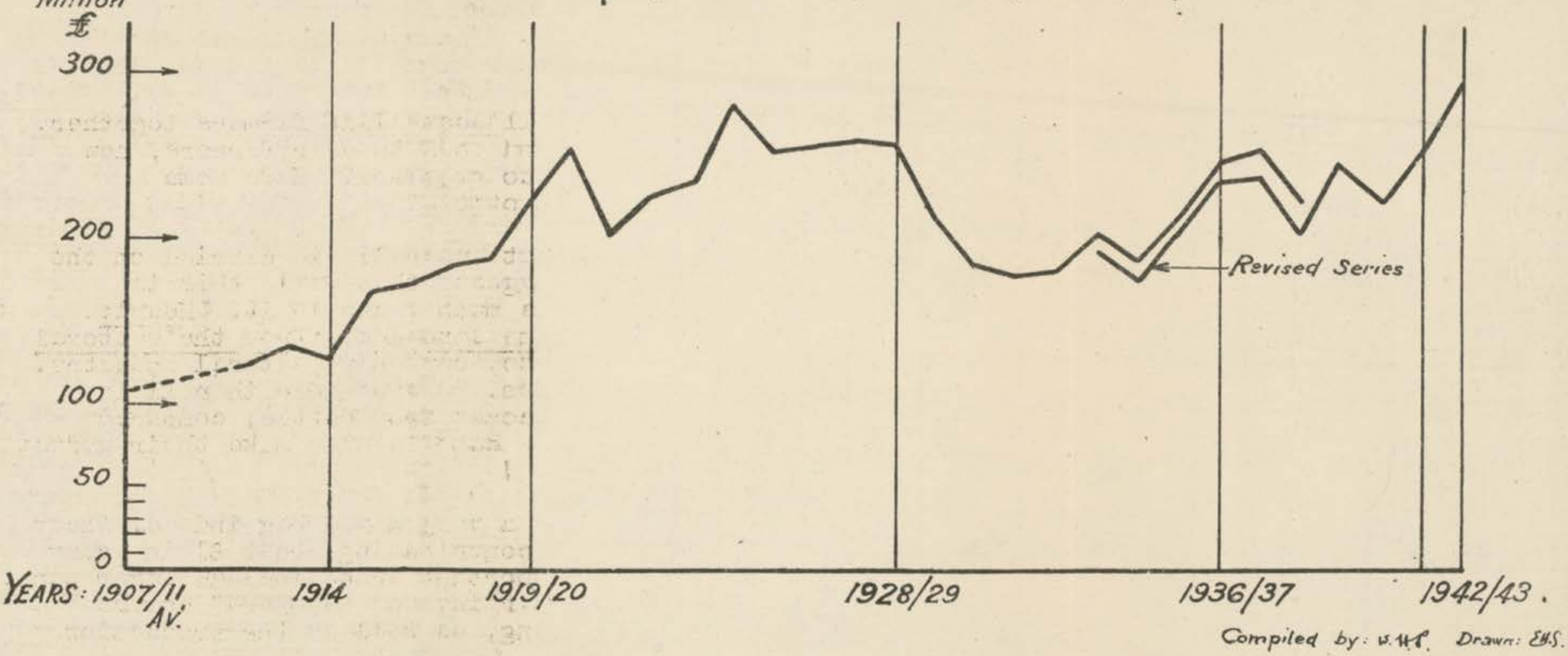

DIAGRAM 2.

Aggregate Gross Farm Income Recalculated in 1923-24 / 1927-28 Prices.

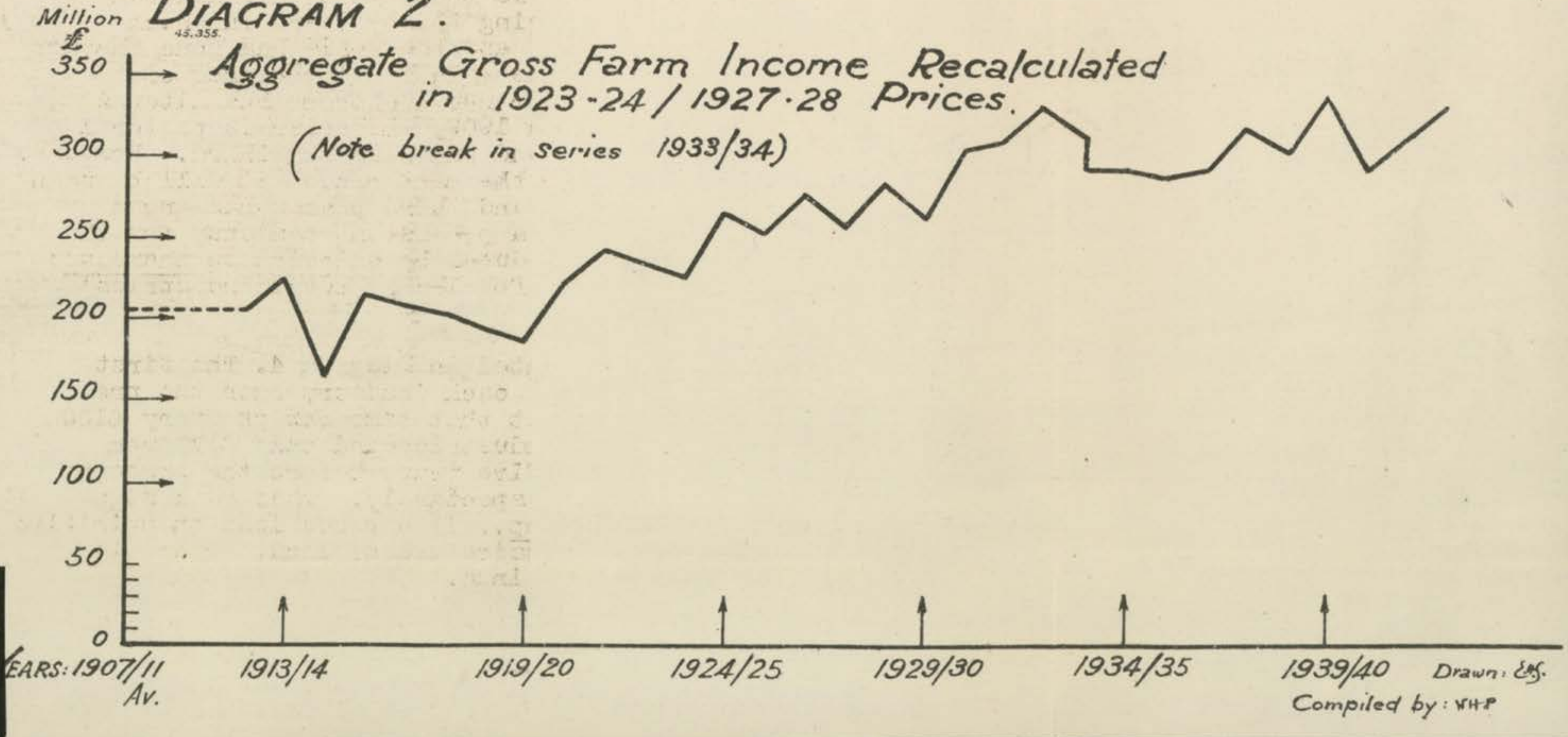

DIAGRAM 3.
45.356

Proportions of Aggregate Gross Farm Income, contributed by Principal Industries.

(Note break in Series 1933/34)

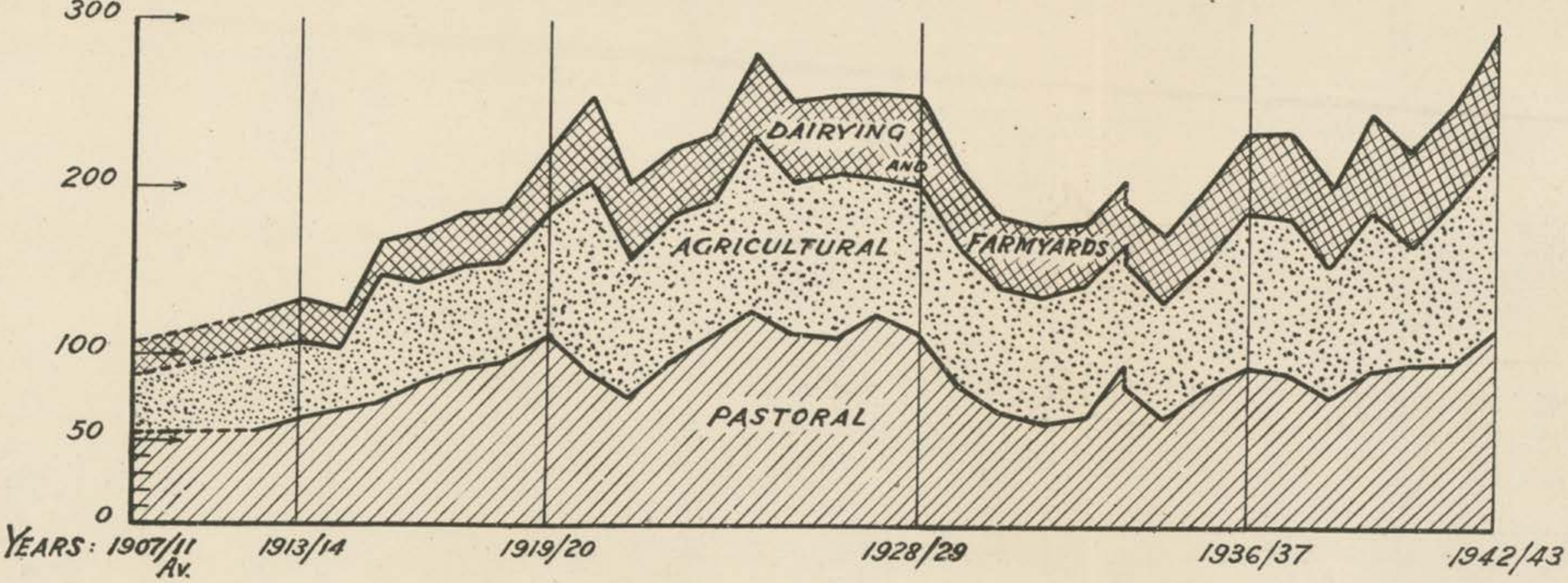

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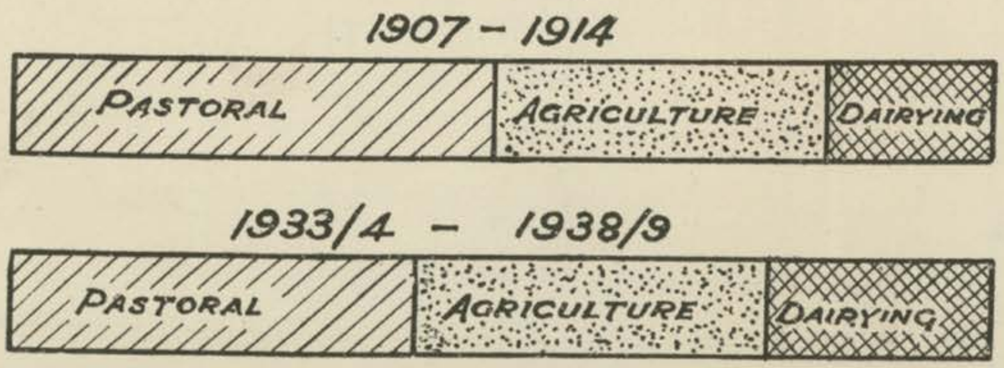
DIAGRAM 4.
45.357.

Relative Importance of Industries prior to World War I and World War II



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