RELATIONSHIPS AMONG HOUSEHOLDS AND FARM ESTABLISHMENTS IN THE 1980's: IMPLICATIONS FOR DATA

by

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Selected Paper

The 1980 American Agricultural Economics Association Annual Meeting

Urbana, Illinois

ABSTRACT

Data and related research presently available does not provide approximate income and wealth distribution indicators for households that provide resources to farming. These kind of data are necessary for dealing with structural issues. Such data should be part of the larger system of data related to farm establishments.

RELATIONSHIPS AMONG HOUSEHOLDS AND FARM ESTABLISHMENTS IN THE 1980'S: IMPLICATIONS FOR DATA

Issues about the structure of U.S. farming are substantially related to income and wealth distributions among people. In turn, information about households that provide resources to farming is necessary to consider the structural implications of alternative policies and programs effectively. For example, household information will be required if policy analyses are to realistically relate to:

> The differences in organization and management of resources among farms,
>
> The prospective separation of resource ownership and use, and
>
> The differences in income and wealth among farm resource owners.

Much of the data and related research presently available, however, does not provide even approximate indicators of the distribution of income and wealth among households. Unfortunately, many policymakers, as well as data reporters and data analysts, use the data and research as if it applied to households.

Unfortunately, while important for many policy issues and therefore analytical reasons, data and research systems which are organized on an establishment basis will not be sufficient to support deliberations about structural implications of alternative policies and programs.

The use of data geared to operators or establishments, as if it represented "one farm-one farmer-one farm household" farms, is not

intellectually satisfactory. Policy makers of course bear a heavy responsibility for how they use information. But in a larger sense, economists and statisticians bear the responsibility if they do not devise data and related research systems that reflect reality.

DISTRIBUTIONS OF INCOMES AND WEALTH AMONG PEOPLE ARE INVOLVED

Farm structure issues relate to many features of farming. They include:

> The way that resources are organized and managed,
>
> Ownership and control of farm resources,
>
> The distribution of income associated with farm resources, and the capital gains associated with the ownership of these farm resources,
>
> Opportunities to acquire farm assets and realize related income streams, and
>
> The distribution of the benefits and costs of government programs, policies, and rules.

Each of these features involve distributions of incomes and/or wealth among households.

The need for household information is further exemplified by the following:

- There is a great heterogeneity in the organization and management of farm resources. Combinations of resource ownership and use have been changing and vary widely.
- Separation of ownership and use of resources is likely to increase, especially with respect to land. Similar developments are already occurring with respect to labor.
- Many households that own resources used in farming have become very wealthy as streams of income and associated farm land asset values have increased in the past 8 years (Schertz and others).

DATA SYSTEMS HAVE BEEN LARGELY GEARED TO ONE FARM-ONE FARMER-ONE FARM HOUSEHOLD CONCEPT

To a significant extent our data systems imply that individual farms are associated with an individual household that includes a resident farmer. The emphasis is on farm operators. These data systems provide only limited information about hired laborers and non-operator landlords. Information about the nonfarm income and nonfarm wealth of the households providing resources such as land, capital, labor, management, and entrepreneurship in farming is even more limited.

In the absence of adequate data and research that provide information on distribution of incomes and wealth (farm and nonfarm) among households involved with resources in farming, policymakers have often used farm related data as if:

(1) individual households are associated with individual farms,

(2) these households do not have significant nonfarm incomes or assets, and

(3) nonfarm households do not own farm assets and therefore do not have farm-related incomes.

Notice, for example, the emphasis on concepts such as farm population, farm-nonfarm income comparisons, and farm income in discussions about the economic well-being of farmers, and related farm policy questions.

But, in fact, U.S. farming deviates dramatically from the "one farm-one farmer-one farm household" model which is diagrammed in figure 1 (Upchurch). In this extreme, one farm household possesses and provides all resources used by the farming establishment. Returns to the households are joint returns for the combination of resources employed. Today, only a small proportion of U.S. farm production is

produced on farms with a single owner-operator family that provides all or a major part of the management and capital goods (horses, energy, etc). Instead the major portion of U.S. farm products are produced by farm establishments that obtain resources from several different households.

RESOURCE OWNERSHIP AND USE SEPARATION MODEL INVOLVES A COMBINATION OF HOUSEHOLDS

The way farm resources are organized and managed, is shifting from one extreme--one farm, one farmer, one farm household--model toward another model--resource ownership and use separation.

This second model involves the separation of ownership of non-land as well as land resources. Separation of ownership of capital from its use (machinery rental, for example) and separation of ownership of labor from its use (hired labor, for example) are involved. Importantly, "use" in this context relates to who receives the entrepreneurial return related to the product produced by the employment of the resources (illustrated in Figure 2). In this model, no one household provides more than one kind of resource. However, individual households may (or may not) supply the same kind of resource to more than one farming establishment. In addition, any one household may supply resources (similar or different) to other establishments not engaged in farming.

In terms of resource acquisition, however, most farm establishments fall somewhere between these two extremes. Figure 3 illustrates a possible arrangement for a farming establishment where one household (which has one or more members who are the operators) provides all entrepreneurial resources but only some of the other resources.

ESTABLISHMENT DATA WILL HELP, BUT CANNOT SUBSTITUTE FOR HOUSEHOLD DATA

Changes in farming have stimulated important proposals to organize data on the basis of establishments. For example, Upchurch proposes orienting data systems to farm production establishments with flexibility of establishments for different types of farming, and a correspondence of data collection for farming to data collection for other businesses such as retail trade and manufacturing (Upchurch). This orientation would be highly useful in understanding the food economy. For example, it could give rise to the development of estimates of "'income from agricultural production' in contrast to current estimates of 'farm income;'" (Upchurch).

However, establishment data will not adequately support deliberations about the structural implications of alternative policies and programs. Establishment data, as I understand the proposals, would not provide information about the ownership of resources used in the establishments, or the characteristics of the households of these owners, such as their nonfarm income and assets. This kind of household information, however, is important to understand changing combinations of resource ownership of establishments engaged in farming, the extent to which resource ownership and use is separated, and the distribution of income and wealth among people involved in farming.

A FRAMEWORK FOR HOUSEHOLD AND FARMING ESTABLISHMENT DATA.

Consequently, I propose that serious attention be given to a possible system of data which focuses not only on farm establishments, but also on the households that provide resources to the establishments.

The juxtaposition of the two extreme models sketched earlier--the one farm-one farmer-one farm household model, and the resource ownership and use model--suggests an approach for investigation and data collection. Important questions that should be included are:

- What is the distribution of farming establishments along the continuum between the two models? Does the distribution vary among resources, products, or regions?

- What are the competitive relationships between the different kinds of farming establishments? (For example, the characteristics of demand, supply, prices, and related factors.)

- What are the competitive relationships among the households that are involved in the different kinds of farming establishments, and the distributions of income and wealth among the different households providing resources to farming establishments?

More specifically, a combined system of data that includes information on establishments and households might involve:

> Accounts for resource supplies and income flows and their distributions among establishments and related households, as well as distributions of nonfarm economic activities, income and wealth.
>
> Development of data on assets, earned income by type of source, and government payments to different types of households with which USDA associates, including suppliers of resources to farming, as well as food stamp recipients. Such data would be helpful in evaluating income and wealth, distribution effects of alternative policy, and program provisions.
>
> An examination, and perhaps expansion and improvement, of price and transaction series for resource categories. For example, how good is the farm land price series?

The extent to which this combined approach is pursued depends upon the priority that society and policymakers place on different issues, and therefore the "demands" they have for information and

analysis. To the extent that analyses are needed for decisions related to supply response, establishment data meet most needs. Wealth effects of income flows to households are not of major importance to reliable supply response estimates.

In contrast, if the analyses are needed for decisions related to economic need--such as the relationship of the incomes of some people to incomes of other people, or some acceptable level of income, as criteria and justification for program activities--an understanding of the economics of the households that are involved is important.

There is a tendency for analyses to focus on firms and establishments. In turn, policymakers, once in a while economists, and even oftener agriculturalists, use analyses related to establishments to support policy appeals on the grounds of equity and distribution. Note, for example, the aura of equity which terms such as fair price, parity, and cost of production instill. A focus on operator tends to blend establishment and household information. But even here, people--including economists at times--have, over time, tended to overlook the economics of other households that provide resources to farming, and the nonfarm dimensions of the households of farm operators, when dealing with policy questions involving equity.

Intellectually, a situation where establishment data is used, in the 1970's, and now in the 1980's, as if it represented "one farm-one farmer-one farm household" farms is not satisfactory. Policymakers, of course, bear a heavy responsibility for how they use information. But, in a larger sense, economists and statisticians bear the greater responsibility if they do not devise data, and related research systems, that are consistent with issues being addressed by society and policymakers alike.

REFERENCES

Schertz, Lyle P. and others, Another Revolution in U.S. Farming?, Agricultural Economic Report 441, Economics, Statistics and Cooperatives Service, U.S. Department of Agriculture, December 1979.

Upchurch, M.L., Steps Toward Better Data For the Food Industry, Economic Research Report 2, Bureau of the Census, U.S. Department of Commerce, February 1979.

Figure 1. One Farm--One Farmer--One Household Model.

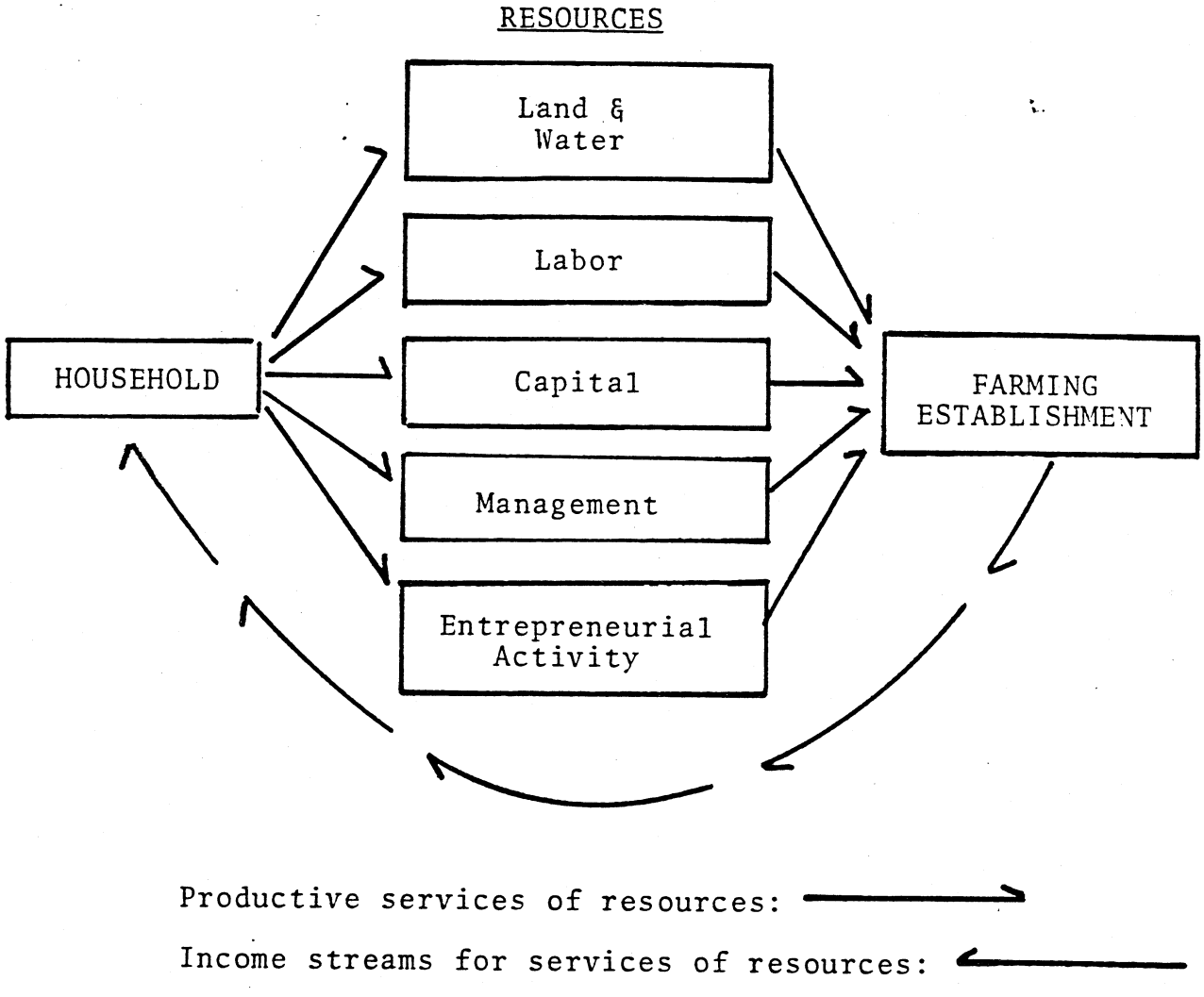


Figure 2. Resource Ownership and Use Separation Model.

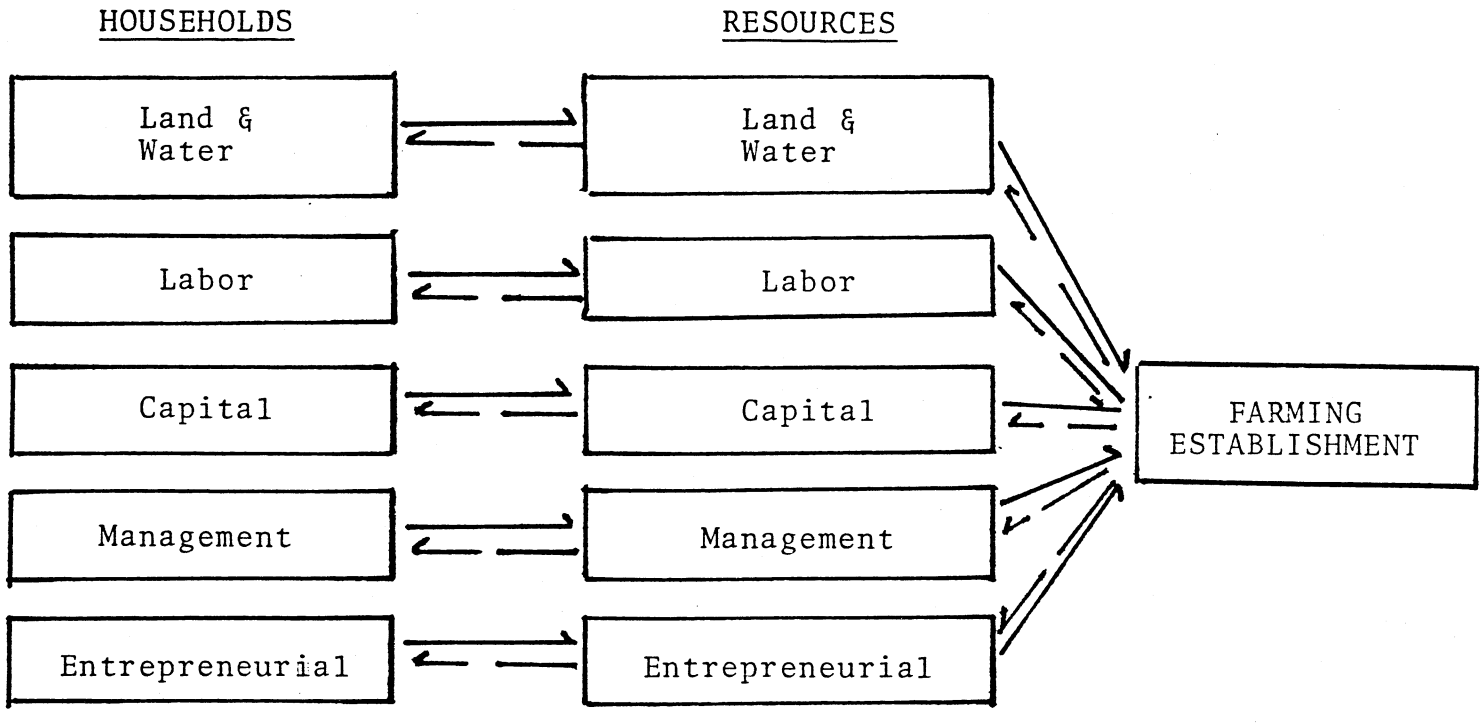
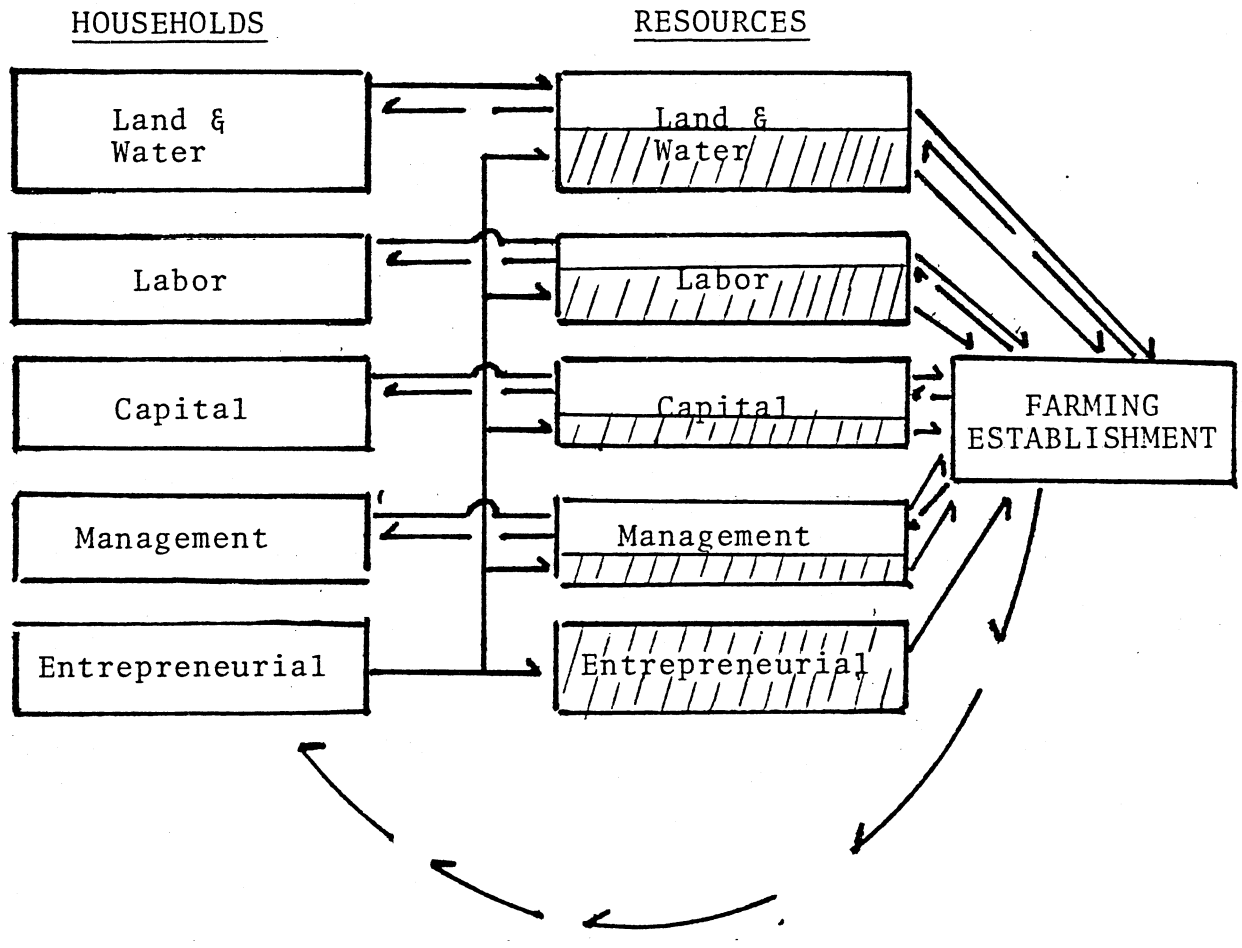


Figure 3. One Household-Farm Operator.



Productive services of resources: ⟶

Income streams for services of resources: ⟵ ——