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## INCOME AND ECONOMIC STATUS OF PEOPLE WITH FARM EARNINGS

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Total money income typically is used to indicate the relative economic status of people. A family with total money income below some commonly recognized standard may be deemed to be poor. For example, the official low-income standard is the benchmark used by most analysts to indicate persons in poverty [15]. Historically, the proportion of farm people with low incomes has been greater than that for nonfarm people. In the 1960's, however, the income gap between farm and nonfarm people narrowed due primarily to increased off-farm income [2]. Growth in off-farm income in recent years ranks among several major changes affecting families in the farming sector [3, 5, 7, 8, 9, 10, 12, 13, 16].

We recognize that the concept of economic status is multi-dimensional including elements other than current money income. Some of these include aspects of permanent income [4], net worth [18], and the general quality of life [1, 6]. Unfortunately, it is often difficult to obtain data sets which contain all these elements in a single observation. Usually the more readily available data were compiled for a specific purpose and not readily amenable to sophisticated analysis.

In a recent study a fairly simple technique was developed to appraise the economic position of people reporting farm earnings [7]. The ability to sustain an economic loss of considerable magnitude was incorporated into a method of categorizing families into five groups: affluent, well-off, high middle, low middle, and poor. For example, a person who sustained a relatively large loss from a farming operation still could have a relatively high economic status although current money income would suggest he was in poverty. The general affluence of the family

might be indicated by the fact that they sustained a large loss without a financial catastrophe. Admittedly, this is not an all-inclusive measure of economic status and suffers from many faults involved in other measures. Yet, it provides a useful "yardstick" when information on the family is limited to level and sources of incomes in a single year.

In this study, we adopt the focus on loss sustaining ability to analyze the change in economic status among people with farm earnings during the 1960's. In addition, the relative importance of each income source is analyzed among status groups. The results emphasize the importance of off-farm income in helping families move to higher status levels.

#### DATA SOURCES AND DEFINITIONS

The data used in this study were prepared by the Internal Revenue Service (IRS), Department of the Treasury. Information for 1963 was compiled by Reinsel [7] from a published IRS report [17]. Comparable data for 1966 and 1969 were tabulated by IRS from the Sole Proprietorship Tax Models for the respective years. The authors did not have access to individual tax records. Provisions for such special statistical studies are made in section 7515 of the Internal Revenue Code. The IRS tax models were based on a sample taken from all returns having sole proprietorship income in 1966 and 1969. Incomes for 1966 and 1969 were deflated to 1963 levels using the consumer price index.<sup>1</sup>

Adjusted gross income reported on Form 1040 was used as the measure of total current money income from farm and off-farm sources.<sup>2</sup> Farm income included sales of livestock, livestock products,

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<sup>1</sup> The 1963 Sole Proprietorship data could not be retabulated in 1969 prices; thus all real income comparisons were at 1963 price levels.

<sup>2</sup> Adjusted gross income also is referred to as "combined farm and off-farm income" and "combined income."

crops, government program payments and other taxable farm-related income. Off-farm income consisted of all wages and salaries, interest, dividends, plus ordinary gain or loss on the sale of capital assets, nonfarm business receipts, royalties, rents and other taxable income.<sup>3</sup> Social security benefits, welfare and other transfer payments, interest on nontaxable state and local bonds and other nontaxable income were not included.

Five groupings were used in this study to depict the relative economic status of people with farm earnings (Table 1). The level of total current money income and ability to sustain a net farm loss were used to identify the groups. Persons with farm profits were classed on the amount of combined income reported. For example, an individual reporting a net farm profit and combined earnings of \$10,000 to \$24,999 was classed as well-off. Those persons reporting a net loss, however, were grouped using both size of loss and amount of combined income. It

was assumed that large farm losses were offset by substantial off-farm income. For example, an individual was classed "affluent" with either \$25,000 of combined income or \$10,000 or more in net farm losses [7].<sup>4</sup>

## THE RESULTS

The substantial decline in the proportion of persons classified in the poor and lower middle income groups and the increasing proportion in the upper middle, well-off, and affluent groups suggest that the economic status of persons reporting farm earnings improved during 1963-1969 (Table 2). Most of the improvement in economic status came between 1963 and 1966 as average real income from combined sources increased by nearly 30 percent (Table 3).<sup>5</sup> Average farm receipts also increased markedly in that period (Table 2). Between 1966 and 1969, average real farm receipts fell slightly while combined real income rose by about 12 percent.<sup>6</sup>

**Table 1. CLASSIFICATION OF PERSONS REPORTING FARM INCOME BY COMBINED EARNINGS<sup>a</sup>**

Combined income levels	Persons with farm profits	Persons with farm losses of--				
		Less than \$400	\$400-\$1,199	\$1,200-\$4,999	\$5,000-\$9,999	\$10,000 or more
\$25,000 or more	Affluent	Affluent	Affluent	Affluent	Affluent	Affluent
\$10,000-\$24,999	Well-off	Well-off	Well-off	Well-off	Well-off	Affluent
\$5,000-\$9,999	High middle	High middle	High middle	High middle	Well-off	Affluent
\$2,500-\$4,999 <sup>b</sup>	Low middle	Low middle	Low middle	High middle	Well-off	Affluent
Less than \$2,500	Poor	Poor	Low middle	High middle	Well-off	Affluent

<sup>a</sup>The classification assumes that large farm losses reported on farm tax returns are generally offset by off-farm income or by wealth. A small number of persons had negative combined income and these persons were classified using the class average off-farm loss rather than farm losses. For further discussion see [7, p. 22].

<sup>b</sup>The low income benchmark is generally above \$2,500—currently about \$3,871 in 1973 for a farm family of four—but the IRS data are not specifically structured to account for persons at or below poverty income levels.

<sup>3</sup> Any Wage and salary earnings from work on another farm were considered as off-farm income. For more detail about the tax data, the reader is referred to [8, pp. 2-3].

<sup>4</sup> Some misclassification may have resulted among those reporting large farm losses, but the number involved is considered small. Also, because some persons with less than the taxable minimum often do not file a return and because some may have failed to report small farm losses, federal income tax data are limited for studies on economic status. Overall, taxpayers would be expected to minimize reported income to reduce income tax liability.

<sup>5</sup> That 1966 was a relatively good income year for people involved in farming is, supported by [12, 14].

<sup>6</sup> The decline in average farm receipts between 1966 and 1969 for all persons reporting farm income possibly reflects an increased awareness of the advantages to smaller units in reporting farm losses for tax purposes.

The improved economic status is more evident in the shift of persons from lower income groups to the upper middle, well-off and affluent groups. With the exception of the affluent and upper middle groups, average combined income within each income class was about the same in 1969 as in 1963. For the affluent and well-off, average combined earnings

changed little between 1966-1969 in contrast to the increase that occurred between 1963-1966. The decline in average farm receipts between 1966-1969 was substantial for the affluent and well-off groups. It is suspected that persons shifting into these higher income groups lowered the average on real farm receipts.

**Table 2. PERCENTAGES OF INDIVIDUALS WITH FARM INCOME REPORTING INCOME FROM SPECIFIED SOURCES, BY CLASSIFICATION OF TAXPAYERS, 1963, 1966, 1969\***

(1963 Constant Dollars)

Classification of taxpayer	Individuals with Farm income		Percentage reporting							
	Number	Average farm receipts	Farm profits	Any off-farm or other income	Off-farm income from--					
					Wages and salaries	Dividends	Interest	Nonfarm sole proprietorship	Partnership	Other sources <sup>a</sup>
Thous.	Dol.	Percent								
			1963							
Affluent--	66	40,130	31	97	48	60	77	31	30	91
Well-off--	251	17,090	56	97	61	32	66	19	13	83
Upper-middle--	926	8,830	48	96	71	13	46	11	4	74
Lower-middle--	925	8,030	65	91	54	8	36	10	3	68
Poor-----	1,029	5,590	87	68	26	5	29	7	1	49
All-----	3,197	8,850	66	86	50	11	40	10	4	65
			1966							
Affluent--	82	45,730	36	99	50	57	85	35	30	93
Well-off--	396	19,800	58	98	65	24	70	21	10	83
Upper-middle--	1,112	9,620	52	97	73	10	50	15	4	76
Lower-middle--	811	8,070	65	92	56	7	39	14	2	69
Poor-----	772	5,680	79	71	25	4	32	11	1	51
All-----	3,173	10,500	62	90	55	11	46	15	4	70
			1969							
Affluent--	95	37,410	35	99	61	59	86	32	33	91
Well-off--	506	16,660	56	99	73	24	74	16	9	69
Upper-middle--	1,123	9,220	51	98	75	11	55	12	4	56
Lower-middle--	712	8,100	66	95	55	9	49	10	3	56
Poor-----	653	5,550	83	74	27	5	43	6	1	40
All-----	3,089	10,280	62	92	60	13	55	12	5	56

\*Source: Internal Revenue Service, "Statistics of Income, U.S. Business Tax Returns, 1963" [17] and special tabulations by IRS from 1966 and 1969 Sole Proprietorship Tax Models.

<sup>a</sup>Includes sales of capital assets, rents, royalties, pensions and annuities, ordinary gain from sales of depreciable property, estates and trusts, sales of other property, and miscellaneous items.

**Table 3. AVERAGE FARM AND OFF-FARM INCOME OF INDIVIDUALS, BY CLASSIFICATION OF FARM TAXPAYER, 1963, 1966, 1969\***

(1963 Constant Dollars)

Classification of farm taxpayer	Off-farm income from--									
	Combined farm and off-farm income	Net farm profit	Net farm loss	All off-farm and other income	Wages and salaries	Dividends	Interest	Nonfarm sole proprietorship	Partnerships	Other sources <sup>a</sup>
Dollars										
1963										
Affluent--	37,280	13,270	14,110	44,150	20,650	15,850	2,970	16,860	12,080	13,780
Well-off--	12,000	6,210	3,080	10,210	9,030	1,370	900	3,300	4,490	1,890
Upper-middle---	5,610	3,190	1,480	5,040	5,400	510	440	2,250	2,010	580
Lower-middle---	3,220	2,150	590	2,240	2,630	340	370	1,250	1,020	420
Poor-----	1,210	900	180	660	830	180	270	310	350	250
All-----	4,650	2,220	1,740	4,430	4,430	2,240	540	3,040	3,800	960
1966										
Affluent--	42,030	14,750	12,060	43,830	19,780	15,170	2,980	18,360	13,920	11,750
Well-off--	12,960	6,830	2,000	10,080	9,150	1,110	800	6,340	5,010	1,510
Upper-middle---	6,290	3,390	1,220	5,290	5,480	460	430	2,170	2,070	650
Lower-middle---	3,330	2,070	490	2,340	2,510	330	420	1,300	920	520
Poor-----	1,170	900	102	700	880	230	290	230	(20)	290
All-----	6,030	2,830	1,480	5,360	5,070	2,610	590	3,310	4,750	1,070
1969										
Affluent--	43,310	11,450	12,350	47,940	21,410	12,280	3,680	20,680	12,720	14,580
Well-off--	12,830	5,680	2,090	10,830	9,810	1,040	910	5,480	4,370	1,880
Upper-middle---	6,330	3,130	1,410	5,570	5,740	530	520	1,920	1,820	930
Lower-middle---	3,390	1,940	550	2,440	2,630	290	590	1,090	780	750
Poor-----	1,190	820	150	740	860	160	360	50	(70)	360
All-----	6,770	2,700	1,810	6,340	5,920	2,260	750	3,920	4,710	1,630

\*Source: Internal Revenue Service, "Statistics of Income, U.S. Business Tax Returns, 1963" [17] and special tabulations by IRS from 1966 and 1969 Sole Proprietorship Tax Models.

<sup>a</sup>Includes sales of capital assets, rents, royalties, pensions and annuities, ordinary gain from sales of depreciable property, estates and trusts, sales of other property, and miscellaneous items.

The general improvement in income status of people with farm earnings supports the observed shift to the right of the personal distribution of farm, people, more people moving into a higher money income class [2]. The shift in the income distribution for people with farm earnings is somewhat different from the more stable distribution of the general population. The relative share of income has remained fairly stable for the general population

between 1947 and 1972 [11].

Improved income status of persons with farm earnings appears to be more closely related to gains in off-farm income (Table 3). For all persons, average off-farm earnings increased 43 percent between 1963-1969. However, a slightly larger gain was experienced between 1963-1966 than between 1966-1969. In contrast, net farm profits (losses) rose (fell) between 1963-1966 but between 1966-1969 the

opposite occurred.

The proportion of persons reporting farm profits declined 4 percentage points between 1963-1966, but remained constant over the latter period (Table 2). Dependence on farm profits was highest among the poor (83 percent in 1969) but declined as status increased. Many in the affluent group apparently offset off-farm income with farm losses. For example, only 35 percent of those classed as affluent in 1969 reported farm profits. For the affluent who reported

farm losses in 1969, their average loss was more than \$12,000 — the highest for any group. Thus, many of the affluent may hardly be thought of as farmers in the traditional sense.

Wages and salaries especially contributed to the improved earnings of persons with farm income. A higher proportion of persons in the well-off and upper middle classes reported wage and salary earnings than in lower income groups.<sup>7</sup> Also, the affluent were somewhat less likely to report wage and

Table 4. DISTRIBUTION OF FARM TAXPAYERS BY TOTAL MONEY INCOME AND ECONOMIC STATUS, 1963, 1966, and 1969\*

(Based on 1963 Constant Dollars)

Classification of taxpayer	Distribution of taxpayers by--	
	Money income <sup>a</sup>	Economic status <sup>b</sup>
	Percent	
	<u>1963</u>	
Affluent-----	1.4	2.1
Well-off-----	6.9	7.9
Upper-middle-----	22.7	29.0
Lower-middle-----	27.2	28.9
Poor-----	41.7	31.2
	<u>1966</u>	
Affluent-----	2.0	2.6
Well-off-----	11.8	12.5
Upper-middle-----	30.5	35.0
Lower-middle-----	24.5	25.6
Poor-----	31.2	24.3
	<u>1969</u>	
Affluent-----	2.5	3.1
Well-off-----	15.4	16.4
Upper-middle-----	31.4	36.4
Lower-middle-----	23.0	23.0
Poor-----	27.7	21.0

\*Source: Internal Revenue Service, "Statistics of Income, U.S. Business Tax Returns, 1963," [17] and special tabulations by IRS from 1969 Sole Proprietorship Tax Models.

<sup>a</sup>Money income is called "Adjusted Gross Income" by IRS.

<sup>b</sup>Economic status is based on the person's ability to sustain sizable farm losses; see Table 1 for classification of taxpayers.

<sup>7</sup> For further discussion of the importance of wages and salaries among people reporting farm income, see [5].

salary income than the well-off and upper and lower middle groups. A higher proportion of the affluent had nonfarm business interests and other investments than was true of the other status groups.

The majority in the well-off group were well-off because of off-farm income in spite of low farm profits and sizeable farm losses. Wages and salary earnings and nonfarm investment and business receipts were important off-farm income sources to this group. Their average off-farm real income in 1969 was slightly more than double the average for the upper middle group.

All off-farm income sources were reported less often by those classed as poor than by people at higher income levels. About one-fourth reported wage and salary earnings in 1969 and the amount averaged \$860, suggesting that most worked only part-time. The poor seemed to rely on farming for much of their income. They also may have smaller farms, as suggested by small farm receipts. Persons in the poor group may lack resources to become full-time farm operators, for some, age or health may have limited their ability to obtain off-farm employment. If account were taken of social security and other nontaxable income, the economic situation of those classed as poor would be somewhat improved. However, this group probably includes many who need help.

Incorporating the ability to sustain a farm loss in measuring economic status gives a somewhat different picture of the relative standing of people with farm earnings than does money income alone (Table 4). When the same income classes were used to classify people as were reported in Table 1, excluding the size of the farm loss, a higher proportion were categorized as poor. Thus, the broader concept of economic status recognizes those individuals who were "affluent" enough to sustain a loss over a short period of time.

### IMPLICATIONS

It is hypothesized that during the 1963-1969 period, the interaction of farm people with the nonfarm economy did more to improve their economic status than have changes within the farming sector. It appears that movement of persons from the

poor status to higher income levels is closely associated with expanding off-farm income. Even though expanding farming operations may improve the income of many farm people, such opportunities are usually limited. Perhaps the best approach toward improving the well-being of low income farm people lies in further rural industrial development rather than in public programs that directly affect the farming sector.

Use of farm income as the primary barometer of the welfare of farm people is highly questionable. A significant change in the economic conditions in the farming sector may translate into a relatively minor change in the total money income of many people associated with farming. In addition, some individuals appear to reduce their total money income, particularly that reported for federal income tax purposes, by reporting losses from farming activities. Thus, the number of persons whose primary source of income came from farming is a relatively small proportion (about one-third in 1969) of all people with farm earnings.

The apparent fluctuations in the income position of well-off and affluent groups, as noted earlier, might reflect the increasing interest in farm investment by "wealthy" individuals. If the influx of equity capital into farming continues, fluctuations in the economic status of people with farm earnings may be greater in the future, especially in the upper status groups. This may cause the future economic position of farm people to improve more than for the population as a whole.

The results suggest that money income itself may not be the appropriate measure of economic well-being. Money income does not take account of the ability of a person to sustain a loss nor does it account for other important factors related to measuring a person's total well-being. Further development of appropriate concepts for farm families is necessary for improving the measurement of farm family well-being.

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