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Is Today's Agricultural Policy the Appropriate Approach to Meeting the Needs of Rural Farm Families?

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Cornhusker Economics

August 14, 2002

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Is Today's Agricultural Policy the Appropriate Approach to Meeting the Needs of Rural Farm Families?

Market Report	Yr Ago	4 Wks Ago	8/9/02
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$69.46	\$61.74	\$62.13
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	94.25	*	82.46
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	106.19	87.12	89.06
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	108.24	96.66	97.10
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	52.50	38.50	34.00
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	*	*	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	120.00	*	107.34
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	43.00	84.17	81.62
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	148.38	165.04	162.45
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu	3.04	3.53	3.87
Corn, No. 2, Yellow Omaha, bu	1.92	2.00	2.37
Soybeans, No. 1, Yellow Omaha, bu	5.14	5.55	5.34
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.74	3.71	4.43
Oats, No. 2, Heavy Minneapolis, MN, bu	1.52	1.87	1.92
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	102.50	107.50	105.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	75.00	72.50	92.50
Prairie, Sm. Square, Good Northeast Nebraska, ton	105.00	97.50	117.50
* No market.			

Susan Offutt, Administrator, Economic Research Service (ERS), USDA, and incoming president of the American Agricultural Economics Association (AAEA), gave a stimulating presidential address last week in Long Beach, California. Her theme was that it is time for agricultural policy to begin focusing on rural farm household income rather than just income from the farm business as a measure of rural need and well being. She presented much interesting data, including:

- Only 10 percent of farm household income is from the farm business.
- Average farm household income is above the level for non-farm households.
- Farm household wealth is 2 to 4 times non-farm wealth depending on farm size.
- Over 40 percent of farm operators hold full-time off-farm jobs and another 15 percent work part-time. Slightly less than 50 percent of farm operator spouses work off-farm.

These data have major implications for what needs to be done to sustain the economic well-being of rural America. Before considering this question, however, lets examine the forces which are shaping rural change.

The major driving force is clearly agricultural technology, which has sharply reduced the labor involved in crop production, with larger farm machinery, reduced tillage and improved weed and pest control procedures having the greatest impact. Because of reduced labor requirements, many farm operators can operate relatively large farms while also holding a full-time off-farm job.

Agricultural technology has not only given farmers the time to work off-farm, but in some cases it has also increased off-farm opportunities. It may no longer be necessary to find a job near the farm, because reduced farm labor needs makes longer commuting times possible and/or makes it practical to reside off the farm at a location closer



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to the off-farm employment source. Telecommunications technology has also contributed to an expanded labor market by making it possible for many farm operators to work “off-farm” for a firm that is located a long distance away without having to leave the farm site on a regular basis.

Many farm households have taken advantage of these opportunities and made themselves less and less dependent on the farm business as a source of income. Ms. Offutt’s numbers suggest that if you doubled national farm income you would only increase average farm household income by 10 percent. They also suggest that, on average, the farm sector is not economically disadvantaged relative to the non-farm sector. Of course, lost in the averages are pockets of great need. All farm households have not been able to reduce their dependence on the farm business as an income source and some continue to experience sub par and highly variable incomes.

Ms. Offutt leaves the conclusions and policy implications up to the listener/reader, but it seems to me that the long-term policy implications for rural America and for rural Nebraska are quite profound, including:

1. A growing emphasis on rural development programs. If one wants to improve the well-being of those farm households still in need, creating additional off-farm employment opportunities may be more effective than trying to improve farm income.
2. Eventual reduction in farm program payments. Although the largesse imbedded in the recently passed farm bill makes one wonder if the political strength of production agriculture is not increasing rather than waning, it seems unlikely that this level of support can be sustained as the public become aware of who gains from farm program payments.
3. As the labor input to crop agriculture diminishes, part time farms grow larger and crop farming becomes more of a part-time business. This is most likely to happen with dryland crops where the labor requirements are typically much less than for irrigated crops.
4. The number of farmers will increase in the future as reduced labor requirements and improved off-farm income opportunities permit more and more people to become part-time farmers. This may be a stretch given our long history of declining farm numbers, but it is not improbable if aggressive rural development efforts replace sustaining farm income as the dominant element in a national rural policy.
5. The number of ultra-large farms decrease as farmers with multiple income sources out compete full-time farmers for available land. We have recognized for a long time that “speculators” and prospective gentleman farmers often out bid full-time farmers for land

near urban areas. As the labor requirements for crop production diminish, this phenomenon may expand to areas well beyond the urban fringe and involve larger and larger acreages.

6. Rural development efforts will increasingly focus on the larger rural communities, because fewer farm families are “land locked.” As it becomes practical for farmers to search more widely for off-farm employment and perhaps to live and work in small cities while farming a few hundred acres several miles away, rural development programs can target communities with the greatest development potential and still meet the long term needs of most rural people.
7. Land values decline as subsidies are phased out, resulting in public finance reform and eventually in less dependence on the property tax.

Whether these impacts will actually happen is pure speculation at this point, but the potential is certainly present for major policy changes during the next decade or so. The trends articulated by Ms. Offutt and reproduced here are national trends, some of which may not apply to Nebraska, but it is national forces, not state forces, which drive national policy. If these trends characterize Nebraska as well as the Nation, they certainly suggest an urgent need for us to rethink our support for current national farm and rural development policies. Even more daunting however, is the challenge which faces Nebraskan’s if we find that our state is an exception to the national trends, perhaps because of our dependence on livestock and on more labor intensive irrigated crop production. In either case, the policy challenge is real and perhaps somewhat different than some of us thought it was before Susan Offutt and her army of ERS economists begin to focus on the policy significance of on-going changes in rural America.

References:

- Susan Offutt, *The Future of Farm Policy Analysis: A Household Perspective*, PowerPoint presentation of AAEA Presidential Address, AAEA Annual Meeting, Long Beach, California, July 29, 2002.
- Mishra, Ashok K. et al. *Income, Wealth and the Economic Well-Being of Farm Households*, Agricultural Economic Report No. 812, Economic Research Service, USDA, July 2002.

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