



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.

Reprint from

POLICY FOR COMMERCIAL AGRICULTURE - ITS RELATION TO ECONOMIC GROWTH AND STABILITY. Papers Submitted by Panelists Appearing Before the Subcommittee on Agricultural Policy. Joint Economic Committee. November 22, 1957. (Reprinted by Agricultural Marketing Service, U.S. Department of Agriculture).

Reserve
aHD1761
.K64
1957

THE CURRENT INCOME POSITION OF COMMERCIAL FARMS

Nathan M. Koffsky and Ernest W. Grove, Agricultural Marketing Service, United States Department of Agriculture

In appendix C of this volume is a set of tables of the standard income series relating to agriculture on a national basis, which are published regularly by the Department of Agriculture. These income figures represent the totals and averages for almost 5 million farms and more than 20 million people living on farms. They are reasonably accurate figures based on methods and sources that have been developed during a period of more than a quarter of a century.

The request of this subcommittee, however, is for information on the income position of commercial farms. As defined by the subcommittee, this group includes approximately 2 million farms which produce some 91 percent of all farm products sold. Here, our statistical base is weak. In fact, there have been no official series which represent incomes of commercial farms as distinct from all farms in agriculture.

We have, however, pieced together—primarily from the 1950 censuses of agriculture and population, the 1954 census of agriculture, and the 1955 survey of farmers' expenditures—a very preliminary and tentative set of data which roughly indicates the income levels and trends for the farm-operator families with which the subcommittee is particularly concerned. But it must be emphasized that these data are probably subject to a wider range of error than has been generally acceptable in farm-income estimates. This points to the need for an expansion of our statistical program if we are to provide better and continuing information on incomes of various groups of farmers.

1. THE CURRENT INCOME POSITION OF ALL FARMERS

(a) *Farm income*

Before turning to the specific group of farmers with which this topic is concerned, it would be well to review very briefly the significant changes in the income position of farmers in general as described in the official statistics of the Department of Agriculture. From this we will move on to an appraisal of the differences in trends for commercial farms and other farms as compared with the averages for all farms.

Appendix tables C-1 through C-5 describe in considerable detail the declining trend in agricultural income through most of the past decade. Farm income has stabilized since 1955, and some income

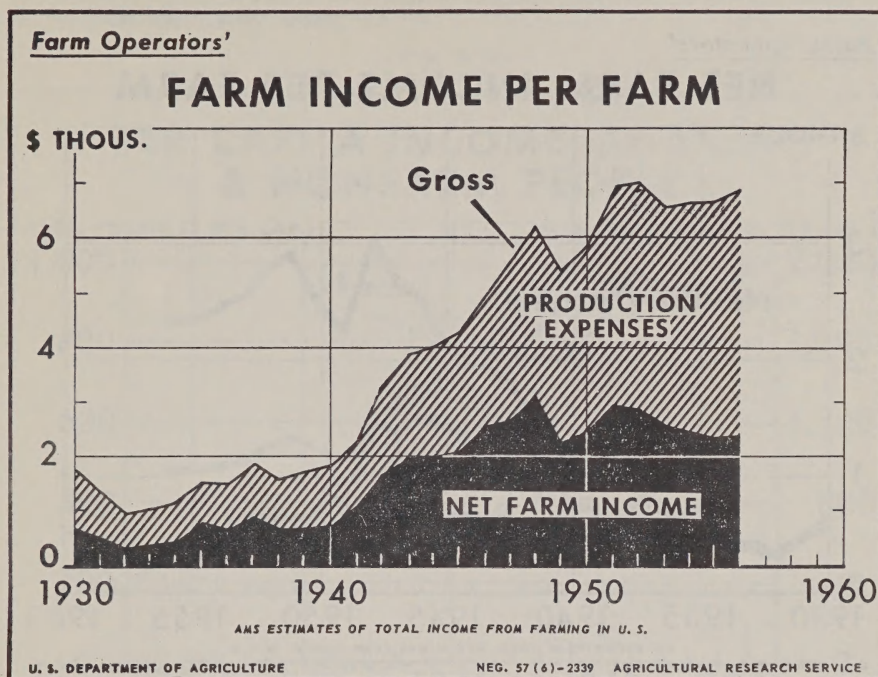
measures have turned upward. But, compared with 1947-49, aggregate net farm income in 1956 was nearly 25 percent smaller. Almost half of the decline occurred between 1953 and 1956. These trends are approximately the same, whether we refer to realized net farm income—which measures the income actually available to farm operators for family living and for capital goods of nonfarm origin—or to net farm income as represented in the national income accounts, which includes the value of inventory change.

In 1956, realized net income rose 4 percent from 1955, whereas net farm income, including the value of inventory change, showed a slight decline. This year, 1957, realized net farm income will likely show a small further increase. Net farm income, which includes the value of inventory change, may also show some improvement unless the level of crop and livestock inventories is substantially lower on January 1, 1958, than is now expected.

One of the significant points of our postwar experience is that gross income for agriculture as a whole in 1956 was actually larger than in the 1947-49 period. A larger output of farm products has offset lower prices. But production expenses increased about one-fourth during that period, and thus brought a substantial decline in net income. In the more recent period, also, since 1953, there was some decline in gross income, but the persistent rise in the farm-cost structure was a more important factor in lower returns to agriculture.

Against this background of a lower level of aggregate income from farming operations, we should take into account the declining number of farms. Since the 1947-49 period, the number of farms has been reduced about 15 percent. The decline is probably continuing at the rate of 1 or 2 percent a year. Thus, on a per farm basis the decline in net income is only about 12 percent as compared with the decline in aggregate farm income of about twice that percentage. Gross income per farm in 1956 was close to the record high, but rising production expenses have squeezed net returns to agriculture. (See fig. 1.)

FIGURE 1



The rise in production expenses reflects two main influences: First, technological developments have substituted machines and other industrial products for human labor. This has brought a high, relatively inflexible, cash cost structure to modern agriculture. Second, persistent inflation during the last decade has had a more pervasive effect on farmers' costs than on the prices of products sold by farmers. In 1956, production expenses accounted for \$2 out of every \$3 received by farmers from farming operations. In 1947-49, expenses accounted for not much more than \$1 out of every \$2.

In addition to the decline in net income per farm—some 12 percent since 1947-49—there has been a rise of 14 percent in prices paid by farmers for family living. Thus, the purchasing power of net income per farm declined about 22 percent between 1947-49 and 1956 (fig. 2).

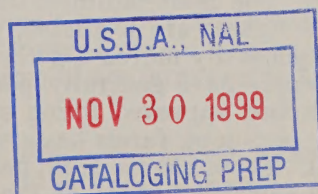
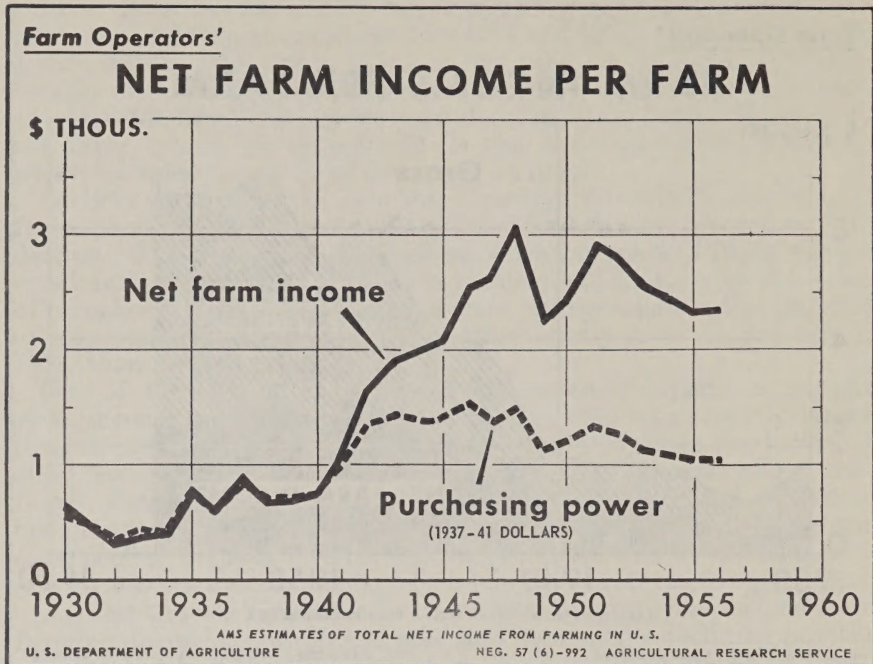


FIGURE 2



The purchasing power of average net farm income per farm last year was at about the same level as in 1941. In contrast, the purchasing power of average weekly earnings in manufacturing has risen more than 40 percent since 1941 and more than 30 percent during the last 8 years.

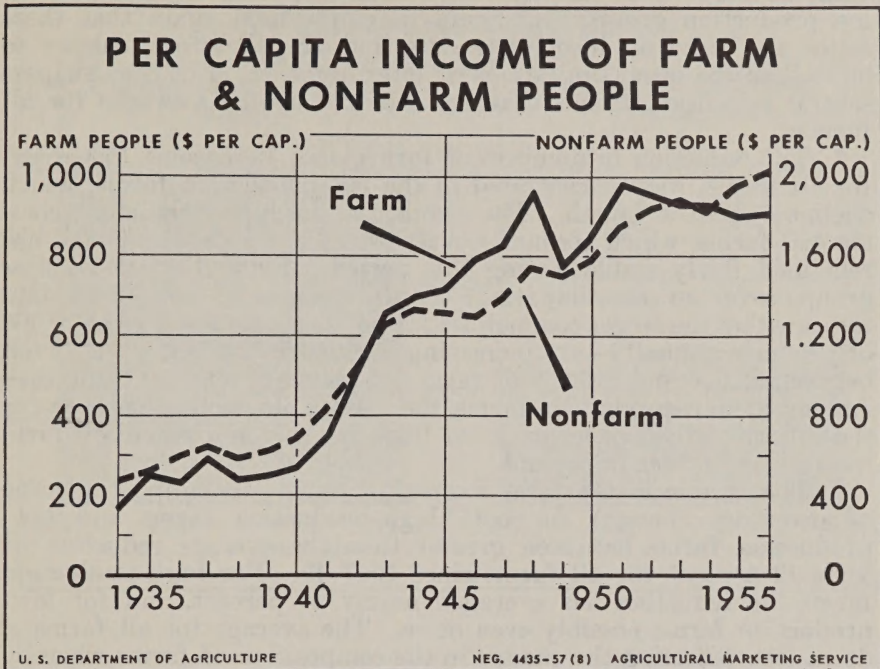
(b) Income of all farm people from farm and nonfarm sources

Thus far, we have been concerned with income from agriculture. Farm people also receive a substantial part of their total income from other sources, such as wages and salaries. In the last 8 years, the average amount received per person on farms from nonfarm sources has risen approximately 50 percent. In 1956, the total per capita net income of persons on farms was about \$900, of which \$600 were received from agriculture and about \$300 from nonfarm sources.

Figure 3 compares the per capita incomes of farm and nonfarm people. It should be noted that in this instance we are dealing with the total farm population, including not only farm operators and members of their families, but also others living on farms, such as farm laborers. The chart indicates that, since 1934, the earliest date for which the figures are available, per capita farm and nonfarm incomes have generally moved together. This indicates that in most years farm people have generally participated in the Nation's economic growth and improved living standards. However, the level of income per person on farms has averaged roughly one-half of the nonfarm level. From 1934 to 1942, per capita income of farm people generally fell somewhat short of the 50-percent level. From 1943 through 1952, per capita income of farm people ran above the 50-percent level. In the last several years, a gap has developed as incomes

of nonfarm people have risen substantially while those of farm people have held relatively level.

FIGURE 3



It is difficult to assess the meaning of the difference in levels of income as between farm people and nonfarm people. Historically, per capita income of farm people has run at a substantially lower level than that of nonfarm people. This is true not only in the United States but also in most foreign countries for which data are available. The existence of an average income gap between farm and nonfarm people is evidence that there are other forces at work, in addition to the incomes received, in determining whether a person pursues farming or some other occupation. There are many intangible factors associated with working and living in the country, and these cannot be translated into dollar terms. It is clear, however, that, while there may be some question as to the actual size of the income gap in real terms, there is some disparity in income, which has tended to widen in recent years.

Although per capita income from farming has declined since 1947-49, increases in nonfarm income to farm people have brought the total net income per person on farms from all sources up 6 percent. In the meantime, per capita income of nonfarm people has risen more than a third.

2. INCOME OF COMMERCIAL OR HIGH-PRODUCTION FARM FAMILIES

(a) Comparison of high-production and low-production farms

Table 1 and figure 4 show, annually, from 1947 to 1956, the new data on average family income broken down as between farm and

off-farm income for high-production farms and low-production farms. High-production farms represent the commercial farms as defined by the staff of the subcommittee. They encompass all farms with value of annual sales of \$2,500 or more. All other farms are in the low-production group. It should be emphasized again that these series are based on incomplete data and are, therefore, subject to more than the usual limitations of interpretation. But they suggest several significant trends that are obscured by the averages for all farms:

1. The reduction in numbers of farms since 1947, some 15 percent for all farms, was concentrated in the low-production farms, which declined about a fourth. The number of high-production or commercial farms, which account for almost all farm products sold, has remained fairly stable during this period. Even these two major groups cover up some important trends. Census of agriculture data indicate that the larger commercial farms—those that sell over \$10,000 of products annually—are increasing in number while those that sell between \$2,500 and \$10,000 of farm products are tending to decline. Among the low-production farms, the most rapid decline has been for those farms which have produced little for sale and where off-farm income has not been important.

2. The decline in net farm income per farm (including the value of inventory change) for both high-production farms and low-production farms has been greater than the average reduction of some 12 percent for all farms since 1947-49. For high-production farms the reduction has averaged nearly 20 percent, and for low-production farms possibly even more. The average for all farms is down less, reflecting the change in the composition of farms whereby low-production and low-farm income farms are diminishing rapidly, thus giving more weight in the average to high-production farms.

3. The table also illustrates the rapidly growing importance of off-farm income to farm families, not only for the average low-production farm family but for the high-production farm family as well. For all farm families combined the substantial increase in income from off the farm has more than offset the reduction in farm income since 1947-49. For low-production farms the gain in off-farm income resulted in an increase in family income of some 22 percent over the 1947-49 average. For this group, in 1947-49, roughly half of the family income was received from off the farm. In 1956, almost three-fourths was from off-farm sources. In the case of high-production farm families, the gain in off-farm income has not entirely offset lower farm incomes. The average total family income in 1956 was down about 6 percent from the 1947-49 average. But, whereas in 1947-49 off-farm income represented some 13 percent of total family income, in 1956 it accounted for 26 percent. While some of the increase in relative importance of off-farm income reflects a reduction in farm income, most is due to the continuing rapid rise in off-farm earnings as a source of income to the farm family.

FIGURE 4

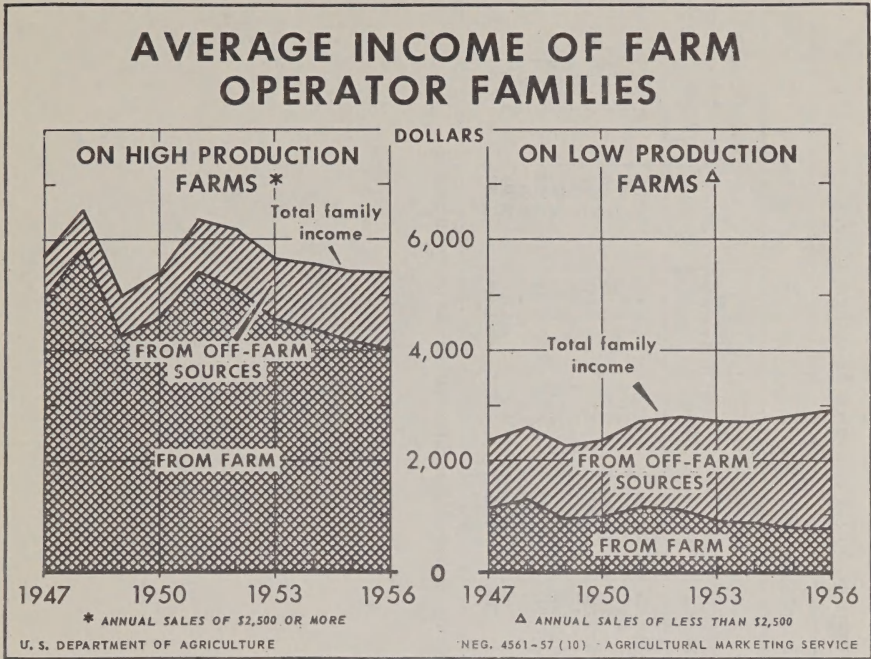


TABLE 1.—Number of farms and average income of farm operator families, by major source, by economic class group, 1947-56

Year	High production farms ¹			Low production farms ²			All farms				
	Number ³ (thousands)	Average family income		Number ³ (thousands)	Average family income		Number ³ (thousands)	Average family income			
		Farm	Off-farm		Total	Farm		Off-farm	Total	Farm	Off-farm
1947	2,140	\$4,969	\$747	\$5,716	3,733	\$1,114	\$1,245	5,873	\$2,519	\$1,064	\$3,583
1948	2,126	5,785	780	6,565	3,678	1,297	1,303	5,804	2,941	1,111	4,052
1949	2,113	4,219	771	4,990	3,610	946	1,285	5,723	2,155	1,095	3,250
1950	2,099	4,571	835	5,406	3,549	1,005	1,365	5,648	2,330	1,168	3,498
1951	2,119	5,416	954	6,370	3,416	1,175	1,539	5,535	2,799	1,315	4,114
1952	2,138	5,104	1,085	6,189	3,283	1,086	1,730	5,421	2,671	1,476	4,147
1953	2,158	4,530	1,125	5,655	3,150	937	1,769	5,308	2,398	1,507	3,905
1954	2,180	4,363	1,165	5,528	3,021	881	1,810	5,201	2,341	1,540	3,881
1955	2,196	4,123	1,294	5,417	2,889	806	2,000	5,085	2,238	1,696	3,934
1956	2,213	4,033	1,382	5,415	2,751	789	2,136	4,964	2,235	1,800	4,035

¹ With sales of \$2,500 or more.² With sales of less than \$2,500.³ Census of agriculture numbers adjusted for underenumeration.

It should be noted that these data are not directly comparable with the per capita income estimates of all farm people discussed earlier. These represent farm operator families whereas the per capita estimates relate to all persons living on farms. Furthermore, the concepts of income differ to some extent as between the two series.

(b) *Comparison of farm family incomes with incomes of nonfarm families*

Table 2 compares the average family income of high production and low production farm families with the average income of nonfarm families. From 1947 through 1952, total incomes of high production farm families generally were higher than incomes of nonfarm families. From 1953 to 1956, the situation was reversed. Thus, in 1956, the average income of high production farm families was about \$5,400 compared with \$5,750 in 1947-49, while that of nonfarm families was about \$6,900 in 1956, compared with \$4,900 in 1947-49. Incomes of low production farm families have risen appreciably since 1947-49, from about \$2,400 to \$2,900.

TABLE 2.—Average family income of farm operator families and nonfarm families, 1947-56

Year	Farm operator families on—			Nonfarm families ³
	All farms	Low-production farms ¹	High-production farms ²	
1947.....	\$3, 583	\$2, 359	\$5, 716	\$4, 775
1948.....	4, 052	2, 600	6, 565	5, 070
1949.....	3, 250	2, 231	4, 990	4, 825
1950.....	3, 498	2, 370	5, 406	5, 232
1951.....	4, 114	2, 714	6, 370	5, 721
1952.....	4, 147	2, 816	6, 189	6, 013
1953.....	3, 905	2, 706	5, 655	6, 360
1954.....	3, 881	2, 691	5, 528	6, 297
1955.....	3, 934	2, 806	5, 417	6, 550
1956.....	4, 035	2, 925	5, 415	6, 900

¹ With sales of less than \$2,500.

² With sales of \$2,500 or more.

³ Based on Income Distribution in the United States, a supplement to the Survey of Current Business, 1953.

In appraising income trends, there is usually some question as to the appropriate base period for such comparisons. This report is concerned with changes during the period 1947 to 1956, primarily because the data for commercial farms could not be extended for earlier years. Some would question the comparisons with 1947-49, as that period was one of unusually high farm prices and farm incomes. From the available data on per capita incomes of all farm people since 1934, income of farm people during 1947-49 appears high compared with its usual relation to income of nonfarm people over the years. There is particular significance, however, in the trends for recent years, showing sharp increases in incomes of nonfarm families while incomes of high-production farm families have not risen.

Further, it should be recognized that high-production farms involve a considerable family investment, generally much larger than for the average nonfarm family. Rough calculations indicate that the average equity of the operator in productive assets (land, buildings, machinery, and inventories of crops and livestock) was more than \$32,000 on high-production farms in 1956. In 1947-49, the aver-

age equity totaled about \$23,000. Thus, if allowance were made for return on investment at prevailing rates of interest, the average net income from farming for high production farms in 1956 of about \$4,000 would be lowered to perhaps \$2,200. For 1947-49, the average income from farming of about \$5,000 would be lowered to less than \$4,000 as the return for farmers' labor and management, net of return on invested capital.

(c) *Farm incomes on specified types of commercial family-operated farms*

It is recognized also that the averages for high-production farms cover up many diverse income situations. The Agricultural Research Service publishes annual estimates of farm costs and returns for 29 different types of farms in various locations in the United States. These are representative of the situation on owner-operated farms in the selected areas. Because of the limited number of types covered and because tenants are not included, they should not be considered as representative of the income situation on commercial farms for the entire Nation. However, all the types of farms covered would qualify as commercial farms under the definition of the subcommittee. Table 3 shows the net farm income for 1947-49 and recent years for the selected types of farms, contrasted with the averages from table 1 for all high-production farms.

TABLE 3.—Average net farm income for high-production farms, by type and location, 1947-49 average and 1953-56¹

Type and location	1947-49 average	1953	1954	1955	1956 ²
All high production farms ³	\$4,991	\$4,530	\$4,363	\$4,123	\$4,033
Dairy farms:					
Central Northeast.....	3,892	3,493	3,735	4,248	4,248
Eastern Wisconsin.....	4,365	3,760	3,219	2,816	3,365
Western Wisconsin.....	3,284	3,159	2,382	2,434	3,005
Corn Belt farms:					
Hog-dairy.....	5,639	6,027	6,379	4,372	5,092
Hog-beef raising.....	3,370	3,357	2,945	3,016	3,333
Hog-beef fattening.....	10,665	7,055	8,833	4,433	6,898
Cash grain.....	8,930	7,471	8,393	6,516	9,141
Tobacco farms:					
Tobacco-livestock (Kentucky).....	3,334	3,457	3,439	2,850	3,200
Tobacco-cotton (North Carolina).....	3,208	3,240	2,927	3,550	3,469
Small tobacco (North Carolina).....	2,354	2,611	2,380	2,885	2,826
Large tobacco-cotton (North Carolina).....	3,923	4,042	3,326	4,463	4,636
Cotton farms:					
Southern Piedmont.....	1,565	1,918	1,438	2,297	1,708
Black Prairie (Texas).....	3,090	3,491	1,724	2,502	974
High Plains (Texas, nonirrigated).....	6,411	-640	4,637	2,755	3,326
High Plains (Texas, irrigated).....	10,761	8,448	13,205	7,243	12,736
Delta (small).....	1,923	2,073	1,581	2,033	1,660
Delta (large scale).....	20,465	24,668	16,943	25,897	21,059
Peanut-cotton farms: Southern Coastal Plains.....	2,313	2,660	2,231	3,196	3,121
Spring wheat farms (Northern Plains):					
Wheat-small grain-livestock.....	6,323	4,075	2,133	6,052	6,992
Wheat-corn-livestock.....	5,972	4,201	3,397	2,547	3,356
Wheat-roughage-livestock.....	5,370	4,512	2,813	4,259	3,122
Winter wheat farms:					
Wheat (Southern Plains).....	10,017	4,961	7,240	4,914	3,252
Wheat-grain sorghum (Southern Plains).....	9,433	1,083	3,314	1,647	2,349
Wheat-pea (Washington and Idaho).....	11,864	14,705	16,048	9,989	13,895
Cattle ranches:					
Northern Plains.....	6,466	4,216	3,625	2,839	1,926
Intermountain region.....	8,665	5,324	4,481	4,626	5,720
Southwest.....	5,698	-490	323	3,121	-1,245
Sheep ranches:					
Northern Plains.....	6,908	5,287	4,299	4,357	5,696
Southwest.....	5,224	772	955	3,393	693

¹ Estimates for individual types and locations were prepared in the Farm Economics Research Division, Agricultural Research Service.

² Preliminary.

³ With sales of \$2,500 or more.

The data illustrate marked variations in income trends among the several types of farms. For example, the ARS data for dairy farms indicate that those in the Central Northeast area have increased their average net farm income almost 10 percent between 1947-49 and 1956, while those in eastern Wisconsin have had a reduction of almost a fourth. Similarly, the typical hog-beef fattening farm in the Corn Belt has had a decline in net farm income of 35 percent since 1947-49, while cash grain farms in the same area have had a small increase. The tobacco farms shown held income fairly close to the 1947-49 average. For the selected cotton farms the smaller sized farms have mostly had some reductions in income, particularly reflecting drought in Texas. However, the larger cotton farms, notably in irrigated areas of the High Plains of Texas and in the Delta show increased net incomes relative to 1947-49. Most wheat farms show rather substantial reductions in income, but here again a few types show increases. For cattle ranches, the 3 types shown have had rather substantial reductions in income, with the cattle ranch in the Southwest showing a negative income of \$1,245 in 1956, mostly the result of drought conditions. A sharp reduction is also indicated for sheep ranches in the Southwest.

Of the 29 types of farms, a little more than half showed some improvement between 1955 and 1956. This roughly follows the pattern of developing stability in farm income overall in those years.

Table 4 shows data for the same years after allowance for return on capital investment. It should be noted that only 3 of the 29 types shown had any increase from 1947-49 to 1956 in the return to labor and management as distinct from return on investment. Moreover, 6 types had negative returns to operator and family labor in 1956.

TABLE 4.—Average return to operator and family labor on high-production farms, by type and location, 1947-49 average and 1953-56¹ (net farm income minus allowance for return on net capital investment)

Type and location	1947-49 average	1953	1954	1955	1956 ²
All high-production farms ³	\$3,831	\$2,853	\$2,728	\$2,420	\$2,236
Dairy farms:					
Central Northeast.....	2,801	1,941	2,317	2,744	2,627
Eastern Wisconsin.....	3,064	1,963	1,531	1,098	1,620
Western Wisconsin.....	2,380	1,925	1,195	1,258	1,799
Corn Belt farms:					
Hog-dairy.....	4,130	3,854	4,285	2,204	2,968
Hog-beef raising.....	2,162	1,535	1,272	1,308	1,569
Hog-beef fattening.....	8,470	3,939	6,032	1,405	3,933
Cash grain.....	6,051	3,370	4,373	2,311	4,842
Tobacco farms:					
Tobacco-livestock (Kentucky).....	2,414	2,177	2,237	1,622	1,959
Tobacco-cotton (North Carolina).....	2,381	2,048	1,757	2,381	2,244
Small tobacco (North Carolina).....	1,909	1,989	1,775	2,287	2,208
Large tobacco-cotton (North Carolina).....	2,359	1,834	1,173	2,338	2,442
Cotton farms:					
Southern Piedmont.....	999	1,041	562	1,402	768
Black Prairie (Texas).....	2,230	2,226	435	1,170	-488
High Plains (Texas, nonirrigated).....	5,003	-2,530	2,728	862	1,364
High Plains (Texas, irrigated).....	8,456	4,292	8,843	2,938	8,268
Delta (small).....	1,596	1,513	1,036	1,458	1,013
Delta (large scale).....	14,776	15,847	8,817	17,425	11,038
Peanut-cotton farms: Southern coastal plains.....	1,980	2,129	1,681	2,641	2,547
Spring wheat farms (Northern Plains):					
Wheat-small grain-livestock.....	4,822	1,794	-118	3,878	4,612
Wheat-corn-livestock.....	4,498	1,980	1,200	322	1,160
Wheat-roughage-livestock.....	4,051	2,438	771	2,209	1,016
Winter wheat farms:					
Wheat (Southern Plains).....	7,445	1,213	3,871	1,246	-440
Wheat-grain sorghum (Southern Plains).....	6,613	-2,987	-541	-2,343	-1,561
Wheat-pea (Washington and Idaho).....	6,854	8,227	9,358	2,478	6,212
Cattle ranches:					
Northern Plains.....	3,396	73	-99	-909	-1,999
Intermountain region.....	5,568	1,587	1,390	1,418	2,658
Southwest.....	756	-8,512	-6,908	-3,912	-8,589
Sheep ranches:					
Northern Plains.....	3,481	458	-144	-65	1,143
Southwest.....	-828	-9,590	-8,546	-6,174	-9,114

¹ Estimates for individual types and locations were prepared in the Farm Economics Research Division, Agricultural Research Service.

² Preliminary.

³ With sales of \$2,500 or more.

This diversity in the income situation among types of farms is probably true also of the size groups within the high production farm category. Although little information is available on the situation in the top group of high production farms—those with sales of \$25,000 or more—data for large-scale cotton farms in the delta contrasted with smaller cotton farms in the same area suggest that the large farms have maintained farm income somewhat better than the smaller family-sized operations. The census and survey data for 1949 and 1954-55, which provided the basis for the estimates of average income of high production farms, also suggest, though by no means conclusively, that net farm income on farms with an annual value of sales of \$25,000 or more was fairly well maintained, while incomes of smaller operations in the high production category showed substantial declines.

Again, if we are to know more about the income situation within the high production and low production categories, our statistical program will need to be substantially enlarged.

NATIONAL AGRICULTURAL LIBRARY



1022475582