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## UNITED STATES DEPARTMENT OF AGRICULTURE

Bureau of Agricultural Economics

BALANCE BETWEEN FARM AND FAMILY EXPENDITURES

Address by Carl Malone, Professor in Agricultural Economics in Farm Management, Iowa State College at the 24th Annual Agricultural Outlook Conference, Washington, D. C., October 9, 1946.

- A. This ever recurring problem is a difficult one for both farm families and for educators because of the nature of the problems involved. Only a part of the problem is in the economic field and is subject to economic analysis and interpretation. Study of the problem should be a joint enterprise; in the family between the various members; among educators; home economists as well as farm economists.
- B. The basic elements of the problem can be divided into three parts:
1. The farm business side.
    - a. Farmers are independent business men. The farm family has four uses for money instead of the one or two of the wage earner or salary man. (1) business capital (2) business expenses (3) living expenses (4) capital for family living.
    - b. Farming requires large amounts of capital per worker, among the largest of any industry. This even though the typical farm business is small in capital value.
    - c. Farmers expect to furnish most of their own capital; thus we have family rather than factory or large scale farms. Since farm families typically begin with little capital of their own, they must save the additional capital out of their income. For example, if a family hoped to accumulate \$12,000 in land, personal property and life insurance, they must save an average of \$400 per year for 30 years out of their income. On most farms, this would be difficult to do except in favorable years. B.A.E. studies show:

Net Cash for Living and Savings  
1930-45 average. (16 years)

Dairy farm, New York	\$1060 - under \$650, 6 years
Hog-beef farm, Corn Belt	1490 - under 650, 6 years
Cotton farm, Delta Area	650 - under 650, 10 years

- d. Within the farmer's control, at given level of prices, farm income is closely related to the amount of capital used; hence the very great effort of the farm family to add to their capital resources even at the expense of better living. We are in a period of rapid technological change. Many of the changes call for using more capital. Farmers also want to shorten the working hours and this frequently calls for using more capital.

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2. The family living side.

- a. Rural standards of capital used in living have generally been lower than for people of similar education and income levels in urban places. We now see a strong tendency for rural people to try to "catch up." Housing and equipment are expensive. Less can be done than formerly by the family itself - furnace, equipment, wiring, etc. On some items, the farm family must pay a higher price per unit. On others, farm costs are lower.
- b. Farm families now desire a greater range of choice in food, clothing and furnishings for the home. They are asking for an expanded community and public program in better health, recreation and similar services. All of these call for more use of the money economy and an increase in the cash expenditures for living.
- c. The desire of farm women to shorten their working hours and to participate more in social affairs of the community tends to increase the cash needs. It may also decrease the amount of home food production, clothing construction, etc. This is offset somewhat by using labor saving equipment and perhaps by more efficiency in homemaking.
- d. Family living standards are increasing in other directions, many of which will require additional expenditures. A longer formal education for the children is more expensive to the family. Families want more education for themselves and this costs money. As roads and transportation facilities improve (they cost more, too) the family's interest widens geographically. This calls for more miles of travel per year, more eating away from home, a wider variety of clothing and so on.

3. Other factors

- a. Farmers tend to rank farm ownership very high in the use of their money. They also tend to value land too highly. Partly they want to own land for profit reasons, partly for security and partly for reasons of prestige. A good many because they hope to obtain windfall gains due to increasing land prices. Over the years, this idea is dying out. Recently, this reason got a big dose of stimulant because of the rising land prices during the war. Many farmers are tempted to buy and hold land for this reason as well as for operating use.
- b. Many farm families expect to furnish their own old age security. They generally have shown little interest in other alternatives. Not only this but they feel that they ought to accumulate sufficient capital so they can live off their capital income in old age rather than consume their savings in later life. Thus the high "propensity to save" among farmers for this reason among others.

- c. Because of the way farming is organized (in family owned farms and farm property) and because of our inheritance pattern, farm capital is constantly being transferred from the farm to the non-farm population. Thus there is a constant "loss" of farm capital due to the inheritance factor. No one has proposed any acceptable alternate. The cost of raising and educating farm children who go to non-farm work (about half of them) is another drain on farm income which benefits the non-farm population as well as the individual. Many families expect to help the children who stay on the farm get started in setting up housekeeping and in getting farming under way.

These, it seems to me, are the basic elements that must be taken into account in any discussion of the division of expenditures between the farm and the family.

- c. They also need to consider the possible sources of purchasing power being used for these various purposes. They do not all rest on the same footing.
1. Accumulated savings that are not yet put to permanent use by the family. Such savings may be either consumed or invested. They may go into either productive use (the farm business) or non-productive use, (family living). If they are unwisely used, they constitute opportunities foregone rather than endangering the future.
  2. Current income. The amount of this is highly erratic due to the nature of farming. It is much more erratic in some areas than in others; more so on some types of farms than others. This fact of erratic income must be related to the much steadier current cash needs of the family living. The trend is toward more and more of fixed expenditures in living; monthly electric and telephone bills, locker rent, insurance of numerous kinds, such as life and hospital insurance as well as property, the dues of organizations and social groups, etc. In addition, current upkeep costs increase as capital investments in household equipment are added. Neither will farm income keep in step with the price level of items used in family living.
  3. Credit. We must distinguish between credit for production and that for consumption including housing. Since we have not yet stabilized our American "boom and bust" economic system, risk may be considerable whether the borrowed money is used for production or in living. Neither do we have a well organized medium term credit system which is needed for many family living investments.
  4. Another source, over the longer run, is that of inheritances. Since the time that such inheritance may be available has no usual relation to family needs or other similar factors, it is not easily brought into the planning process. But it may be of considerable importance. When available, it brings in many of the same planning problems as does accumulated savings. However, sentimental considerations are more apt to guide its use.

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D. The role of educators.

1. First, we have noted that this should be a joint enterprise between home economists, farm economists and others.
2. We should help farm people see their problem as a whole; both the farm and the family side. These are so interrelated that they can seldom be discussed separately. This means that both the man and wife are involved, both in planning and carrying out decisions.
3. They will need specific information on parts of the problem. For example we can supply such facts as:
  - a. What additional capital will likely return if put in the farm business.
  - b. What new technology is available? How much capital it will require? What it will pay for using it. (We must remember that enjoyment and prestige count in farming, too).
  - c. The possibilities of improving material levels of living. Probable capital costs and upkeep, advantages and disadvantages. What it will add; comfort, convenience, appearance, save time, etc. (Women also count in enjoyment and social prestige.)
  - d. Possibilities for improving the non-material living level of the family. This often calls for money use.
  - e. The kind, nature and cost of alternate security possibilities for the family. Tendency to bid land prices up on themselves, reduces amount left for living.
  - f. The problem of property transfer within the family. Keeping the farm in the family is often the goal. But there are many pitfalls.
4. Note that the above almost invariably calls for family goals. Educators cannot, we dare not, try to set up the pattern of living that any individual family should try to follow. Also since we do not know much about the longer run future, we cannot accurately appraise the possibilities and risks in any given course of action over the family life cycle. We can and should furnish specific information. We also need to help people think through choices and weigh values as they see them.
5. We need also to remind them that the world is dynamic so decisions must nearly always be modified in the future. There is little virtue in "building for 100 years." Yet too great flexibility in planning and spending develops erratic thinking and living.
6. The tools we use should not be too complex or detailed, neither should they be so simple as to have little use. Farm people are not very adept at pencil work, though they are improving in this, but they are used to thinking about complex problems so we should not underestimate their ability but put our ideas in simple language.

7. Thus education on the problem of balance between farm and family expenditures is not an exact and easily developed process. It must be approached with the background of the people in mind with whom we are working. It requires a good deal of versatility on the part of the educator, a real interest in their problems and a considerable amount of technical knowledge. Farm people find it useful though the results of such education do not lend themselves well to the traditional forms for reporting extension education.

