Income, Wealth, and the Economic Well-Being of Farm Households.

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Abstract

Agricultural policy is rooted in the 1930s notion that providing transfers of money to the farm sector translates into increased economic well-being of farm families. This report shows that changes in income for the farm sector or for any particular group of farm businesses do not necessarily reflect changes confronting farm households. Farm households draw income from various sources, including off-farm work, other businesses operated, and—increasingly—nonfarm investments. Likewise, focus on a single indicator of well-being, like income, overlooks other indicators such as the wealth held by the household and the level of consumption expenditures for health care, food, housing, and other items. Using an expanded definition of economic well-being, we show that farm households as a whole are relatively better off than the average U.S. household, but that about 6 percent remain economically disadvantaged relative to the rest of the population.

Keywords: Consumption, farm households, income, wealth, well-being, off-farm employment.

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Executive Summary

Since their inception in the 1930s, price and income support programs have been devised to both raise the level of farm income and close the gap between farm and nonfarm incomes. Concurrent with farm program changes over the years was a dramatic shift in the structure and organization of farms. Current farming operations are complex business entities requiring astute management of contracts, alliances, and ventures. Farm households are faced with wide-ranging decisions about how to allocate their limited resources among farm and nonfarm activities. Just as farms are diverse in their structure, so are households in their employment, investment, and consumption.

This report surveys the factors that affect the economic well-being of farm operator households. We also address pertinent policy issues, such as whether farm households are inherently disadvantaged and whether they have lower incomes, lower wealth, and lower household expenditures than nonfarm households. Our analysis hinges on an economic well-being concept that captures farm household wealth and expenditures in addition to more conventional income measures.

The main findings of this report are:

- *Farm households are no different than other households in pursuing two careers and diversifying earnings*. More than half of all U.S. farm operators work off-farm, with 80 percent of these working full-time jobs. Nearly half of all spouses are also employed off the farm. Off-farm work is no longer viewed as a transitional position between the agricultural and the industrial economy, but as a lifestyle choice, with farming as a second job or investment. As with most households, income flows not only from farm and off-farm employment but also from investments. Off-farm employment is often for the sake of securing retirement and health benefits.

- *The farm business as a source of income has played an increasingly smaller role in determining the well-being of farm households*. Nearly 90 percent of total farm household income in 1999 originated from off-farm sources. The contribution of earned income (off-farm) alone amounted to 53 percent of total farm household income.

- *While farm business income exhibits considerable variability, farm household income is relatively stable*. Fluctuations in farm output, commodity prices, and business cycles, along with macroeconomic policies (as they affect interest rates and exchange rates) all contribute to the variability in farm income. Since these factors are beyond any farmer's control, many farm households have relied successfully on off-farm income to stabilize their total household income.

- *While the age and status of the farm operator (life cycle) most determines the level and sources of household income and wealth, farm type and size, operator education, farm tenure, and family size also factor in.* Of the contributing factors, perhaps most significant is the size of the farming operation.

- *Income available to farm households can support a standard of living equal to or above that of nonfarm households*. Associated with the considerable rise in total farm household income in recent years have been a rise in expenditures (on goods

and services) and a rise in savings and/or investments. Farm households, on average, are better able to support their consumption needs with income.

- *Consumption expenditures of farm households are lower than for all U.S. households*. Farm household expenditures appear to be lower than nonfarm household expenditures, even when the analysis controlled for differences in income, age, location, and size of farm.

- *For most nonfarm households owning businesses, the business is the main source of income; for most farm proprietorship households, the farm detracts from total household income*. Based on a comparison of either median or average incomes, farm operator households are now on par with all U.S. households. The closing of the income gap has been substantially driven by the increase in income from off-farm sources. Despite the convergence of the income levels, farm businesses were much more a household liability than nonfarm businesses. For more than 60 percent of farm households in 1998, the business was a detriment to a household's before-tax-income. Only 4 percent of nonfarm businesses incurred income-reducing losses.

- *Despite conventional thinking, farm households are not financially disadvantaged compared with other U.S. households*. Almost half of farm households have both higher incomes and greater wealth than U.S. households as a whole. Of these households, 98 percent reported household income greater than consumption expenditures.

- *Average wealth of farm households has increased, and farm households have broadened their portfolio to include more nonfarm investments*. Nominal wealth of the average farm household grew by 54 percent over 1993-99. With the growth in average wealth, farm operator households have broadened their investments to include cash, money market accounts, corporate stocks, mutual funds, IRA, and 401K accounts. The share of this wealth in 1999 stood at more than twice its 1993 level, but can be expected to contract as it had expanded with the 1990s booming nonfarm economy.

- *Even for farms located in rural areas, off-farm income is still the dominant source of household earnings.* Income and wealth of farm households based on the location of the farm follow a similar pattern: those households in or near a metro area tend to be significantly better off than nonmetro households. Farm households in metro areas depend heavily on off-farm income (95 percent of total income). Through their off-farm work, these households can invest in nonfarm assets.

Taken together, these findings demonstrate that it is no longer suitable to class all farm households together and consider them either disadvantaged or without financial problems. While the economic well-being of most farm households eclipses that of all households, 6 percent of farm households clearly remain disadvantaged relative to both the farm and nonfarm population in terms of their low income and wealth.