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Where Do Farm Households Earn Their Incomes?

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Abstract: *Off-farm income is a permanent, significant component of total income for many farm households. In 1986, half of all farm households depended mainly on off-farm income for family living expenses, while two-fifths depended primarily on farm income. Less than a tenth of the households depended on both farm and off-farm income. Farm commodity programs are important in maintaining income levels for many farm households, but those that depend primarily on off-farm income probably receive greater benefits from policies designed to initiate and maintain growth in the overall economy. This report examines the relative importance of farm and off-farm sources of income by type of farm, farm size, region, and proximity to major metro employment centers.*

Farm Household Income Varies More Than the Average for All U.S. Households

Farmers and their households have historically had lower incomes than nonfarm households. The gap between average incomes of farm households and nonfarm households has narrowed over time, partly because of increasing off-farm income for farm households. Total farm household income exceeded that of nonfarm households during much of the 1970's.

Average farm household income has consistently been higher than the average income of all U.S. households throughout the 1980's on a strictly cash basis (net farm cash income plus off-farm income). However, when certain noncash farm expenses, mainly depreciation, are taken into account, average farm household income was below the average U.S. household income from 1980 through 1984, but above the U.S. average since 1985 (table 1).

This report examines the dependence of farm households on off-farm income and evaluates the relative importance of farm and off-farm sources of income by type of farm, farm size, region, and proximity to major metro employment centers.

Farm household incomes have, overall, compared favorably with nonfarm household income in recent years, but such a comparison does not address the issue of how income is distributed among individual households. Farm size, type, and location all bear on the extent to which individual farmers have access to or are able to earn off-farm income.

Off-farm income has become a major component of total farm household income (table 2). But, off-farm income sources, particularly earnings from nonfarm jobs, are not equally available to all farmers. A large part of off-farm income is in the form of "unearned income." For example, investment income in the Plains was 23-30 percent of the region's total nonmetro personal income in 1983 [1]. (See References when underscored numbers appear in brackets.) Thus, in the Northern Plains particularly, nonfarm investments are apparently a major source of off-farm income.

Figure 1
Farm household income compared with U.S. average

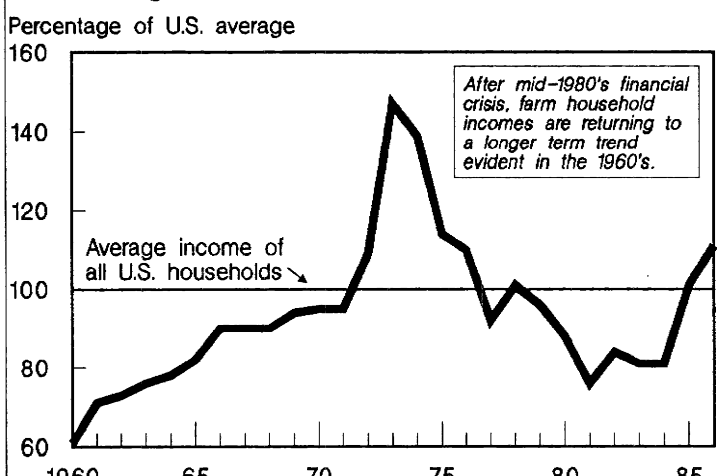


Table 1--Farm household income dropped below the U.S. average from 1979 through 1984 after 6 boom years in the 1970's

Year	Farm operator households: Total cash income 1/	Farm operator households: Adjusted USDA income 2/	Average U.S. household money income	Ratio of adjusted USDA farm income to U.S. household income
	Dollars			Percent
1970	12,204	9,472	10,001	95
1971	12,800	9,823	10,383	95
1972	15,536	12,328	11,286	109
1973	21,493	17,854	12,157	147
1974	21,209	18,204	13,094	139
1975	21,218	15,694	13,779	114
1976	22,668	16,463	14,922	110
1977	21,981	14,866	16,100	92
1978	25,794	17,955	17,730	101
1979	27,660	18,797	19,554	96
1980	28,322	18,434	21,063	88
1981	28,176	17,411	22,787	76
1982	31,035	20,422	24,309	84
1983	31,276	20,623	25,401	81
1984	33,121	22,347	27,464	81
1985	39,484	29,436	29,066	101
1986	43,718	34,246	30,759	111

1/ Net cash farm income plus off-farm income.
2/ Excludes nonmoney income. Includes wages and salaries that farm households derive from the farm business and an allowance for depreciation of farm assets.
Source: [4].

Table 2--Off-farm income has declined as a share of total cash income since 1981

Year	Net cash farm income	Off-farm income	Total cash income	Proportion from off-farm sources
	Billion dollars			Percent
1981	32.8	35.8	68.6	52.2
1982	38.1	36.4	74.5	48.8
1983	36.9	37.0	73.9	50.1
1984	38.7	38.9	77.6	50.1
1985	46.6	42.6	89.2	47.8
1986	51.4	44.6	96.0	46.5
1987F	57.1	46.8	103.9	45.0
1988F	55-60	48-50	103-110	46.6-45.5

F = Forecast
Source: [3].

The Northern Plains does not have the large employment centers generally required for significant off-farm wage and salary income. The Southern Plains has more employment centers, but farms tend to be smaller [2]. (See figure 2 for the composition of the regions we discuss.)

Principal Source of Household Income Depends on Nature of Farm Operation

Using data from the 1986 Farm Costs and Returns Survey (FCRS), we analyzed farm households' sources of income and stratified the households into three groups (table 3):

- *Those highly dependent on farming (40 percent of all farm households):* Households reporting a positive net cash farm income that was 67 percent or more of total household income (267,342 with low off-farm income and 170,571 with no off-farm income) plus households reporting negative net cash farm income (92,149 with low off-farm income and 76,579 with no off-farm income).
- *Those highly dependent on off-farm income (almost 51 percent of all farm households):* Households reporting that positive net cash farm income was less than 33 percent of total income (231,298) plus those with a negative net cash farm income but a positive total income (538,091).
- *Those dependent on both farm and off-farm sources of income (less than 10 percent of all farm households):* Households with positive net cash farm income that was 33-66 percent of total income (140,146).

Among farm households that primarily depend on farm income, negative net cash farm income may be the result of some unusual hardship (such as a crop failure) or of a decision to store commodities rather than sell them during the survey year. Some of these households in the 1986 survey may have had low cash farm incomes for an extended period, because they had high average debt levels and correspondingly high interest payments.

Farm households that primarily depend on off-farm income sources include households that have substantial off-farm in-

Figure 2
Study regions

comes that more than compensate for small farm losses and those that have positive net cash farm income but significantly larger off-farm income. In 1986, those two groups had roughly similar asset, debt, and equity levels, and were similar in size, type, and location. Those farms may have been rural residences where the operators raised a few cattle or specialty livestock and crops as a sideline to their primary occupations.

Farm households that depend on both farm and off-farm sources of income earn 34-66 percent of their total cash income from farming. These operators on average receive more of their income from farm sources than from off-farm sources.

Forty percent of all farm households depend on farming for family income.

These households' net cash farm income, averaging about $35,000 per farm, is only marginally supplemented by off-farm income. Farms in this group receive an average of $10,090 in direct Government payments, the highest of any of the groups. For the 52 percent of the operators in this group who participated in Government programs, the average payment was $19,308. This high average reflects both the large size of these farms and the high proportion of them involved in the production of federally supported commodities.

Their high debt/asset and debt/equity ratios also reflect their sizes and types. These households are concentrated in three main farm enterprise types: cash grains, meat animals, and dairy. A significantly higher proportion of farms in this income group are in the upper sales classes compared with the other income groups. The largest proportion of farm households that primarily depend on farm income are in the Plains and Lake States-Corn Belt regions, areas traditionally dominated by large commercial farms. Also, these farms are less likely to be in counties located near major metro employment centers.

Almost 51 percent of the farm households depend on off-farm income for most of their household income.

These farms are generally small; 91 percent have product sales of less than $40,000 per year. On average, these households had a small loss on the farm, but substantial off-farm income brought their total cash income to an average of $37,954. The households in this income group participate in Government programs at a low level, and they have the lowest asset, debt, and equity levels and lowest debt/asset ratios of all three income groups. These characteristics fit the general perception that farming supplements the primary occupation of household members.

Most of these farms are involved in lower valued, less labor-intensive enterprises. The major farm types, in descending order of importance, are meat animals (beef, hogs, and sheep), cash grains, other crops, and other livestock. Although meat animals and cash grains are often grown on large-scale farms, rural-residence-type farms can easily maintain a few head of cattle or other livestock or produce a small harvest of crops without requiring large amounts of land, labor, capital, or operator time. Fruit and vegetable farms are only a small proportion of farms in this group, but most fruit and vegetable farms are concentrated within this income group. The farm operators may market these products through pick-your-own operations or roadside fruit and vegetable stands, allowing the operators freedom to maintain a full-time, off-farm job or allowing for employment of other family members.

Farm households that depend on off-farm income are highly concentrated in the Lake States-Corn Belt region and in the South. They are also more highly concentrated in metro counties or counties adjacent to metro areas than are households in the other two income groups. Relative closeness to major metro areas facilitates off-farm employment.

Roughly 10 percent of all farm households depend on a combination of farm and off-farm income.

These households tend to have modestly positive net cash farm incomes and modest off-farm incomes. The 53 percent of operators in this group who participated in Government programs received an average of $11,493. Since Government program payments average about 50 percent of the net cash farm income of program participants in this income group, a large proportion of these households would incur losses on their farming operation without Federal support. Households in this income group tend to have significantly higher asset, debt, and equity levels and higher debt/asset and debt/equity ratios than their counterparts that depend on off-farm income. Thus, they resemble households that mainly depend on farm income, suggesting that off-farm income primarily sustains the farming operation.

Cash grains, meat animals, and other crops are the primary farm types for operators who depend on both farm and off-farm income. Because more than 75 percent of these farms have sales of less than $100,000, these commodities appear to be manageable in combination with modest off-farm employment to provide for family living expenses.

Like their farm-dependent counterparts, these farm households tend not to be close to a major metro employment center, but rather in areas less likely to have employment opportunities readily available. Much of the off-farm income of these households is probably from sources other

Table 3--Characteristics of farms and farm households based on their primary source of income, 1986

Item	Farm income	Off-farm income	A combination of farm and off-farm income
		Primary source of income	
		Number	
Farms	606,641	769,389	140,146
		Percent	
Share of total	40.0	50.8	9.2
		Dollars per farm	
Net cash farm income	35,541	-2,950	19,728
Off-farm income	4,447	40,904	18,963
Total cash income	39,988	37,954	38,691
Government payments	10,090	1,248	6,096
Net Commodity Credit Corp. (CCC) loans	7,144	634	4,093
Farm assets	430,249	193,594	302,822
Farm debt	113,157	29,900	50,934
Farm equity	317,092	163,694	251,888
		Percent	
Debt/asset ratio	26.3	15.4	16.8
Debt/equity ratio	35.7	18.3	20.2
Farms by type:			
Cash grain and cotton	29.5	15.9	34.5
Fruit and vegetable	4.2	5.1	4.5
Other crops	10.5	14.5	11.6
Meat animals	27.1	50.0	30.0
Dairy	20.0	3.0	13.0
Other livestock	8.7	11.6	6.4
Value of sales:			
Less than $40,000	34.4	90.8	52.4
$40,000-$99,999	26.2	6.8	30.1
$100,000-$249,999	27.4	1.9	14.7
$250,000 and over	12.1	.5	2.8
Region:			
Northeast	8.6	7.2	8.1
Lake States and Corn Belt	38.5	31.2	42.6
Plains	22.3	20.4	24.0
South	18.4	27.2	15.6
West	12.2	14.0	9.7
County location type:			
Metro	25.5	32.2	23.7
Adjacent nonmetro	31.5	36.2	31.7
Nonadjacent nonmetro	43.1	31.6	44.6
		Years	
Average age of operator	50.0	52.0	51.0
		Percent	
Program participation:			
Direct payment participation rate	52.3	19.6	53.0
		Dollars	
Average payment per recipient	19,308	6,381	11,493
		Percent	
CCC loan participation rate	24.4	5.7	23.4
		Dollars	
Average loan per recipient	29,264	11,177	17,450

Note: Totals may not add due to rounding.
Source: 1986 Farm Costs and Returns Survey.

than off-farm employment, such as investment income and transfer payments.

How do these income groups compare?

Most of the farm households that depend on farm income tend to operate the highest proportion of larger farms. These farms are most likely to be located quite distant from major employment centers in the Midwest and are most likely to specialize in the major Federal program commodities. They participate the most in Government programs but bear more of the risk of the volatility of international agricultural trade. More than 50 percent of the farmers who depend primarily on farm income and of those who depend on both farm and off-farm income receive direct Government payments. The average payment per participant was more than 50 percent of the net cash farm income for both these groups, illustrating the significance of Federal farm programs.

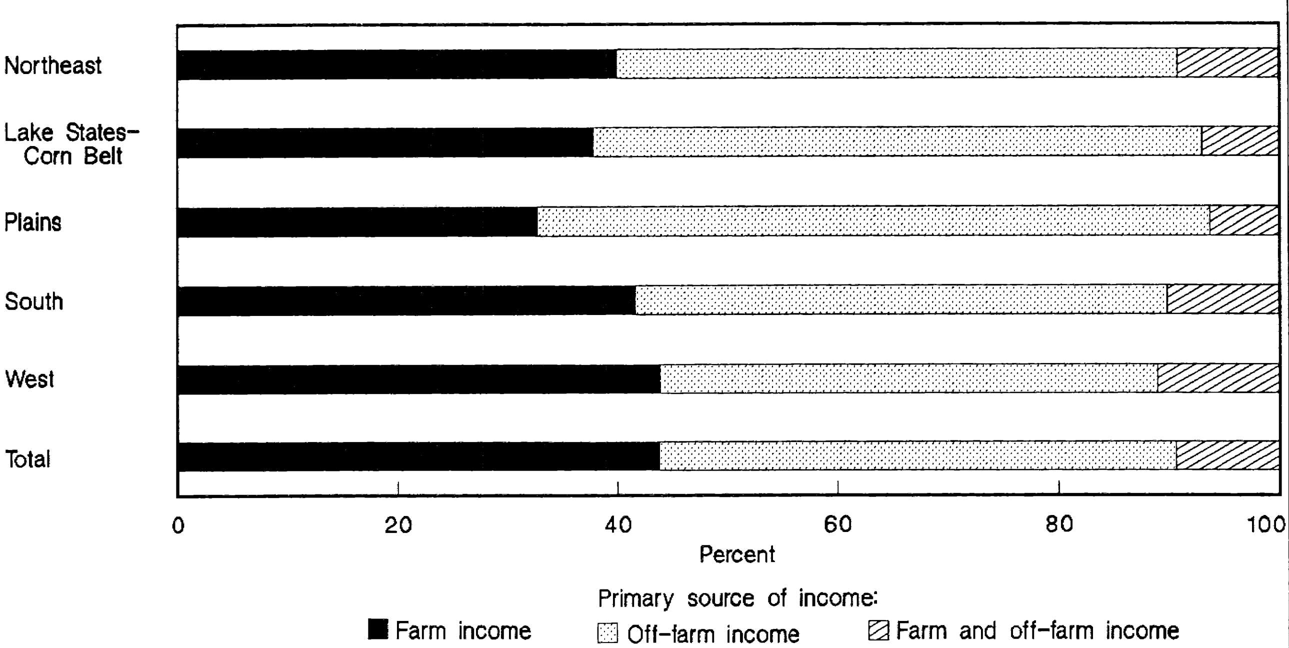
In contrast, households that depend on off-farm income operate small farms, mostly in the Lake States-Corn Belt and the South, are more likely to be near major employment centers, and have the lowest asset, debt, and equity levels. They tend to specialize in meat animals, grains, or specialty crops, all of which may be managed in conjunction with a nonfarm principal occupation. Thus, their participation in Government programs is only marginal, and farm policy less directly affects them.

The farms of households that depend on both farm and off-farm income are of intermediate average size compared with households that depend on farming. These farms tend to be more concentrated in the Midwest and Plains States away from major employment centers than are farm households that depend on off-farm income (fig. 3). These households tend to be more specialized in program commodities than their counterparts that depend on off-farm income and are, therefore, involved in Government programs more fully. Because their asset, debt, and equity values and ratios are similar to those of households that depend on farm income, they are also similarly more sensitive to farm policy and international economic conditions.

Off-Farm Income Links Farm, Nonfarm Sectors

The importance of off-farm income to the total financial well-being of the farm sector provides a major link between the farm and nonfarm sectors of the economy. Fifty percent of all farm households now depend on off-farm jobs or investment and retirement income for 67 percent or more of their total household income. Off-farm income also provides an element of income stability to partially offset the

Figure 3
Distribution of farms, by region and primary source of income, 1986



Source: 1986 Farm Costs and Returns Survey.

volatility of farm income. These households have a vital interest in rural development efforts to enhance nonfarm job opportunities in rural communities.

Off-farm income has become a permanent source of income for many households in the farm sector. Only about 16 percent of farm households report receiving no off-farm income. Although previously considered by many observers and analysts as a transitional step to full-time farming, off-farm employment is becoming more widely viewed as a choice by farmers to pursue dual careers. Farmers who work off their farms or who receive other off-farm income range from those whose primary source of income is from off-farm work and who farm as a sideline or secondary activity to those who consider farming as their major occupation but look to off-farm work or investment income as an important component of their total income.

Off-farm income earned by farm households is important for maintaining income comparability between farm households and all households. The average farm operator household cash income, including income from both farm and off-farm sources and adjusting for depreciation of farm assets, is about equal to the average money income of all households. Without off-farm income, farm households' adjusted household income would be slightly more than 50 percent that of the average of all U.S. households.

The combination of farming and off-farm careers has several implications for how we approach farm policy and how we view the well-being of the farm sector. Farm households that earn a substantial portion of their total income from off-farm sources may have a different perspective on farm programs than those who earn all or most of their income from the farm and, consequently, may respond differently. Policies and programs aimed at the general economy, such as those affecting employment levels, may be more important than farm policy to the economic well-being of farm households that depend largely on off-farm income. Measures of farm sector well-being that do not consider farm households' off-farm activities probably give a misleading picture of the sector's economic condition.

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