

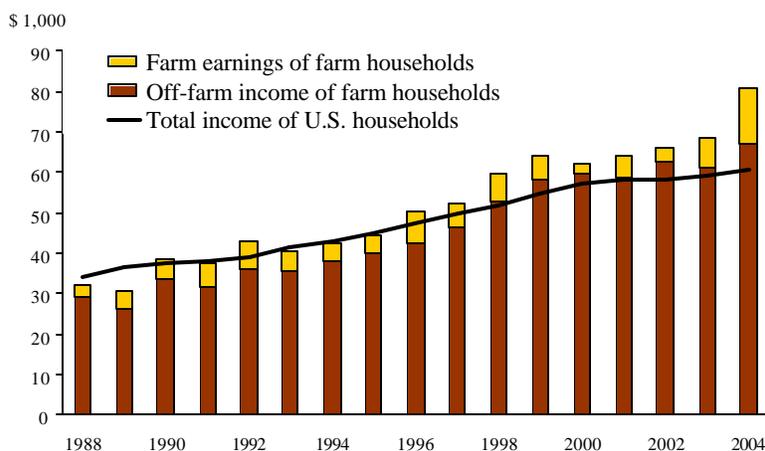


FARM FAMILY INCOME

Background

On average, farm household income has been roughly comparable to the median for all U.S. households since the 1970s. In 2004, the most recent year for which comparable data exist, the average farm household had an annual net income of \$81,480, while the average U.S. household netted \$60,528. However, farm households that receive most of their income from farming experience more year-to-year fluctuations in household income than other households.

Average farm operator household income by source compared to average U.S. household income, 1988-2004



Source: Farm Costs and Returns Survey (1988-95) and Agricultural Resource Management Survey (1996-2004), Economic Research Service

In recent years, 85-95 percent of farm household income has come from off-farm sources (including employment earnings, other business activities, and unearned income). The relative importance of off-farm income varies considerably from farm to farm, and declines as farm commodity sales increase. But even among the largest farming operations (the 8 percent of farming operations with annual sales exceeding \$250,000), off-farm income accounts for 24 percent of farm household income, on average. For the 82 percent of U.S. farming operations that have annual sales of \$100,000 or less, off-farm income typically accounts for all but a negligible amount of farm household income. As a result, for the majority of U.S. farm households, the availability of off-farm income is a more significant factor for financial well-being than are returns on farm production. While off-farm income can include interest, dividend,

and social security payments, in nearly 70 percent of family farm households the operator or the spouse reported having an off-farm job in 2004. Over 40 percent of farm operators consider something other than farming to be their primary occupation. The health of the local economy has a direct impact on the well-being of these households through the availability of off-farm jobs and the profitability of nonfarm businesses owned by farm operators and their spouses.

While larger farms comprise a relatively small proportion of farm households, they account for a large proportion of agricultural production (the 18 percent of farms with sales of \$100,000 or more produce about 88 percent of total farm sales) and rely on farm profits for a higher percentage of household income than smaller farms. Over 80 percent of farm commodity program payments go to farming operations with sales of \$100,000 or more. Government payments accounted for 5 to 8 percent of total gross cash farm income over the last several years. For larger farming operations that received Government payments in 2004, these payments dropped from roughly 10 percent of gross cash farm income for farming operations with \$100,000 to \$250,000 in sales to 5 percent of gross cash farm income for farming operations with over \$500,000 in sales.

The well-being of farm households is not determined solely by the annual income of their members. Household wealth can play an important role in alleviating the impact of sudden changes in income, and most of the wealth of farm households is in the form of farm business assets, particularly farmland.

General Opinions Expressed

- The next farm bill must focus on enhancing net farm household income. Gross farm income is increasing but net farm income is not because input costs for items such as energy are rising faster than market revenues and payments. Landlords get part of payment increases through increased rents. Almost 90 percent of farm household income comes from off-farm sources.
- Many farm households must rely on off-farm income to support farm households because income from the farm operation is insufficient. Programs are needed to create and expand off-farm employment opportunities for spouses and operators. Frequently off-farm income is used to cover farm operating costs such as increasing input costs.
- Some respondents emphasized that farm dollars stimulate the rural economy. Farm programs deliver benefits not just to producers but also to local economies. USDA needs to educate the public about these benefits.
- Some respondents favored means testing for farm payments, taking into account off-farm income. Proposals ranged from caps of \$25,000 to \$250,000 of off-farm income.
- Any reduction in farm program support should be gradual. Many farmers have their retirement tied up in farm assets and are concerned about the impact of changes in farm programs on the value of these assets.
- Rural economic development is important because it provides additional employment opportunities in the local area, raising disposable incomes. Attracting investment and retaining skilled people require public investment. Some respondents emphasized the importance of good educational institutions as well as the need for distance learning opportunities and increased broadband Internet access.

- Some respondents expressed concern about the importance of commodity and conservation programs in farm income. Some expressed the need for alternatives to reduce farmer dependency on Government payments. Others suggested eliminating commodity programs altogether.
- A number of respondents indicated that the 2002 farm bill was the best farm program ever and should be continued. Others thought support for trade liberalization and trade promotion was misplaced and advocated a return to older farm programs with supply management features.
- Many comments expressed strong support for the Conservation Security Program and urged full funding of the program as a means of improving farm incomes.
- To revitalize rural America, farm policy must emphasize entrepreneurship over entitlement. Respondents identified a diversity of ways to obtain additional income. Farmers need to become better educated to invest and increase income by value-adding and vertical integration. Farmers markets and other direct-to-consumer activities should be encouraged.
- Many respondents favored support for expanded production of biobased fuels as well as other value-added agricultural-related activities like "Vermont Brand" products. Others advocated activities such as hunting, agro-tourism, production of organic foods, identity-preserved grains, farmer-owned processing, and developing local markets through direct markets or farmers markets.
- Some respondents supported the Conservation Reserve Program (CRP) as a means of supplementing farm household income directly and as an additional source of income through leasing CRP land for recreational uses such as hunting.

Detailed Suggestions Expressed

- The farm bill should increase funding for State-Federal partnerships that expand markets and test ideas for enhancing farm profitability.
- USDA should establish a Presidential Initiative that targets proposals that retain and enhance small and medium-sized farms and ranches by identifying opportunities to increase income and self-employment in farming and ranching. This would benefit local economies.
- Small farms need affordable liability insurance for individuals coming onto their farm to purchase products.
- Congress should ensure sufficient funding to support the production and marketing of highly valued agricultural products, including organic foods as well as grass-fed and grass-finished animal products.
- We need to better understand micro-level household and farm economics in rural places. Most economic development programs operate on the assumption that people do (or if they don't, should) operate in the formal economy. Yet the informal economy (including barter and unregulated economic transactions) has always been a critical component of rural lifestyles. We need to understand how informal economies function, and how to structure economic development assistance in ways that support rather than undermine informal economic activity.