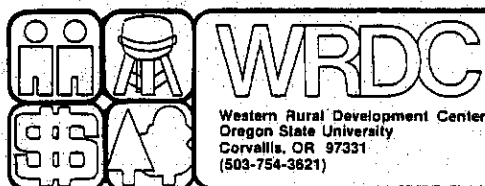

Sustaining American Farm-Ranch Family Income: The Land Grant Institutions Can Help

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SUSTAINING AMERICAN FARM-RANCH FAMILY INCOME:

THE LAND GRANT INSTITUTIONS CAN HELP

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When the three "R's" in higher education stand for reduction, retrenchment and reallocation it is difficult to catch the public's attention by proposing the expansion of programs. Yet I am basically doing just that--calling for new resources for rural scholarship, knowing that perhaps the only way to obtain new resources will be through the difficult process of reallocating existing funds. My reasoning in asking for reallocation of resources is based on the following five assertions:

1. Rural areas, especially in the West, are economically and culturally tied to natural resources. An understanding of the interdependencies of people, communities and industries is vital to an understanding of the health of all elements of rural areas. Rural industries include forestry, mining, fishing, petroleum, agriculture and outdoor recreation.
2. The rural community is the environment through which rural families generate and gain access to their diverse economic, service, social and cultural support needs.
3. Ninety-nine percent of agricultural families are heavily dependent on off-farm income for their economic wellbeing and, in fact, the largest and most stable portion of farm-ranch family income is generated from off-farm sources.
4. Land Grant institutions focus on scholarship, research and education as they affect people and their potential. Our mission is to assist people to develop toward their potential; though not a liberal arts college per se, at our best we function as that and more.
5. If this country is going to understand rural issues, the scholarship will have to be produced by the Land Grant institutions. The Land Grants are the only U.S. institutions with the history, the type and the quantity of needed resources to comprehensively work in rural areas.

This paper will elaborate on the statements outlined above, while addressing the main thesis that the economic strength and stability of America's ranch and farm families is dependent upon the economic stability and viability of rural communities.

NATURAL RESOURCE INDUSTRIES

Rural America has always been dependent on natural resources. Historically this dependence has been economic with rural industries such as forestry, mining, fishing, petroleum and agriculture producing goods for a large domestic market. In the last three decades, however, major changes have occurred. Rather than producing predominantly for domestic use as in the past, rural industries are now dependent on international markets to determine the price of their products. This increased foreign influence has contributed to rural economic fluctuations and most heavily affects the Western U.S. A few communities have been able to diversify some, but western distances often preclude much further diversification.

The substitution of capital for labor in recent years has greatly affected the ownership and operation of our rural industries. With added changes from the applications of technology, rural employment is now less dependent on natural resource industries and has shifted, as has the rest of the economy, toward service and manufacturing alternatives. Increasingly the natural resource dependency becomes more a cultural relationship and less an economic one. This does not imply that the natural resource industries are not important to rural communities, but rather that they are less frequently the only economic activity. Today more people live rurally for cultural or quality of life reasons than in the past. There are still agricultural, mill or mining communities scattered across our nation, but we seem to be losing one every few weeks.

ROLE OF THE RURAL COMMUNITY

The rural community provides its citizens with access to employment, goods and services needed for maintaining quality of life. At a minimum, services provided rurally include roads and communication links. Usually much more is provided by both the public and private sectors, and frequently the natural resource industries combine with manufacturing and the service delivery system to provide an interlocking employment network of economic livelihood.

In order to ensure the health of the rural community, people need to understand the outside forces that are changing their community, eliminating some alternatives while developing others. The rural labor force needs training to prepare for emerging jobs. Work needs to be done to stabilize employment and income and to provide public service delivery alternatives. People need to understand the rural impact from new communication and micro-computer technology. Local leadership needs access to information and political processes on foreign markets, strength of the dollar and improved access to limited outside resources in order to assist them in affecting public policies which force changes on the community.

With the scholarship developed, Land Grant faculties are equipped to work with local business, government, political leaders, organizations and families, individually and collectively, to educate toward dealing effectively with changes pressed upon their community. Most attempts to improve the situation require informed, energetic, joint efforts. Yet for citizens to participate in these efforts there must be rewards--some benefit from the effort to those who are making the effort. There must be some attractive attainable alternatives in sight to select as objectives in order to keep a community motivated and moving. Research and education is needed to determine viable methods and alternatives and to assist rural people in making

decisions which ensure effective use of available resources.

OFF-FARM INCOME FOR FARM FAMILIES

Nationally off-farm income has amounted to over 30 percent of farm family income virtually since 1950. Currently off-farm income accounts for about 60 percent of farm family income (Table 1). It seems off-farm income is, and for a long time has been, the largest farm family enterprise for producing income. Answers to the following questions might help in determining how to assist farm and ranch families:

1. What are the sources of family disposable income?
2. How do the various sources of disposable income influence farm and ranch operation decisions?
3. How do off-farm income sources influence the ability of farm and ranch families to adjust to unstable incomes?
4. Do rural communities play a role in the generation of farm and off-farm disposable income?
5. What part do local businesses, civic organizations, governments, educational systems, health services, churches, etc. play in the support of off-farm income alternatives, farm income generation and important cultural interrelationships?
6. Does off-farm income increase or reduce the stress felt by farm and ranch families?
7. Could activities related to off-farm income affect the types of technologies adopted by ranches and farms?
8. How can rural people adapt to the increased influence of foreign markets?

9. Where does the negative stress originate and how can we deal with it?
10. How do off-farm income alternatives affect the content and delivery of our research and education efforts?
11. Can we evaluate our research and education in terms of its relationship to the entire income generation concern of the family?

FOCUS ON PEOPLE

Torlief Aasheim, former Montana Extension Director, is quoted as saying, "Extension needs to work on problems that make grown men and women cry." The Land Grant institutions must focus on farm families, not only farm production capabilities. The attention should be on assisting people to achieve what they desire through information and education. Changing this emphasis will influence how we work on farm and production issues. Specifically, the focus will be on the issue of farm family income rather than farm profitability. Farm profitability is certainly part of the issue, but only part.

IF IT IS RURAL, THE LAND GRANTS MUST DO IT

For the past three to four years I have been deeply concerned about the reduction in research and extension faculty focused on the broader issues of rural communities. Communities have been asking for help in understanding the potential to diversify employment and how to finance public services given major losses of revenue. They want to know how to keep main street business alive, what can be done to hold on to employment in the basic industries, and who suffers when employers fail or leave the community. These same communities need to be informed as to how their wellbeing is tied to foreign demand fluctuations, the strong dollar and high domestic interest rates. Few states in the West have the research/extension faculties to sustain this broad spectrum of investigation and education. We have fought a few brush fires, but the job to do overwhelms resources currently available. Yet it is the Land Grant

institutions that can hear these rural community questions.

The above real concerns indicate a few of the questions addressed. The topics lend themselves to research and education; they are important and they affect farm and ranch families. A bumper sticker says, "Think Globally, Act Locally;" rural community research and extension faculties can move communities in this direction.

FARM AND RANCH--RURAL COMMUNITY INTERDEPENDENCE

Does all of this relate to farm-ranch family wellbeing? It must. As mentioned earlier off-farm income currently amounts to over 60 percent of total farm personal income (Table 1). The economic strength of rural communities must play a role in this most important farm-ranch family task of off-farm income generation. Table 1 illustrates the increasing importance of this off-farm income since 1950.

Table 1 Off-Farm Income As A Percentage of Total Personal Income of the Farm Population 1950-1983

Decade	Percent Off-Farm Income									
	0	1	2	3	4	5	6	7	8	9
1950	31.0	28.6	19.2	32.5	32.2	35.6	37.5	37.7	34.9	40.6
1960	39.1	40.0	42.1	45.0	49.0	46.9	47.1	51.3	53.1	51.7
1970	52.7	53.1	51.3	40.5	48.8	46.7	53.1	54.2	51.4	48.9
1980	61.41	54.0	61.8	71.0						

Source: "Economic Indicators of the Farm Sector: Income and Balance Sheets Statistics," 1983, USDA, Sept. 1984.

Employment and access to economic information is important to farm people as they work to sustain or raise their standard of living and quality of life. Though it was popular once to refer to agricultural research

and extension as focusing on the challenge of "making two blades of grass grow where one grew formerly," the farm families are making two or more income sources provide where one once provided, a very long time ago.

Would it be useful to begin to describe, then analyze, and eventually educate on the ways farm families deal with making a living, why they live on farms and what they want and expect from rural communities? There must be considerable interplay in the generation of off-farm income and the goods and services needed to effectively farm.

Table 2 Farm and Off-Farm Family Income by Class of Farms by Sales 1980

Farm Sales		Farm	Off-Farm	Total	Off-farm percent of total
In \$1000	(% of all farms)	Average Income per Farm in Dollars			
2.5-5	(13.5)	-825	18,217	17,392	NA
5-10	(13.7)	-549	18,033	17,484	NA
10-20	(11.8)	43	16,160	16,203	99.7
20-40	(11.5)	1,695	12,054	13,749	87.7
40-100	(16.0)	7,875	9,856	17,731	55.6
100-200	(7.4)	24,659	10,166	34,825	29.2
200-500	(3.4)	63,691	12,407	76,098	16.3
500+	(1.0)	593,284	23,986	617,271	3.9

Source: Op cit., Tables 56 & 69.

Using 1980 data, Table 2 illustrates the distribution of off-farm income impact by class of farm sales. For the small farms with \$40,000 and less from farm sales, the off-farm income amounted to something over 87 percent. This is not surprising. Clearly these farms were

dependent on off-farm income sources. Farms from \$40,000 to \$100,000 received over 55 percent of their income from off the farm. Many of these people are surely real farmers. The farms with from \$100,000 to \$200,000 in farm sales received almost 30 percent of their family income from off-farm sources. These are "commercial farmers and ranchers" by almost any definition, except perhaps that of the IRS. In all of these cases the off-farm income must be playing a significant role in the conditions under which farm-ranch decisions are made. But even the farms from \$200,000 to \$500,000 in sales receive 16 percent of their income off-farm, and 16 percent would amount to a healthy farm enterprise. Shouldn't we invest more resources toward understanding something as important to farm-ranch people as their income source? To further emphasize, remember the interest is in people-related issues and we are talking about a major income source for 99 percent of farm and ranch people across the U.S.

Table 3 Largest Enterprises for Farms
With Sales From \$250,000 to \$500,000

Enterprise	Farm Sales	Net
Cattle & Calves	\$ 3.3 Billion	\$.5 Billion
Dairy	2.4	.4
Poultry	2.1	.3
Hogs	2.0	.3
Corn	.8	.1
Soybeans	.5	.1
Wheat	.4	.1
Off-farm*		1.2

Source: Communications with John Blackledge, Agricultural Section, Bureau of Census, July 19, 1985, data from 1982 Census of Agriculture.

*Not collected in '82 Census, comes from EC1FS3-3.

To take the process one step further, frequently people say the off-farm income is important "only to the small farms." The

statement above fairly well removes the "only the small farms" argument. Table 3 contains the income contributions of the seven largest farm-ranch enterprises, for farms with sales between \$250,000 and \$500,000. Cattle and calves are the largest single enterprise with \$3.3 billion in sales nationally from these large farms and ranches. When the costs of production are taken out, the net contribution to family income is \$.5 billion or less. The other enterprises are handled in a similar manner; off-farm income is \$ 1.2 billion for roughly the same farm-ranch sizes. For the large operations, off-farm income contributes more to family income than the largest single farm enterprises, indeed as much as the top three collectively.

To provide another perspective, the following two tables lay out the farm and off-farm income received by farm families since 1950. It is helpful to observe the trends and the yearly fluctuations over the period for each income source. The farm net income in Tables 4 & 5 is reported in constant 1967 dollars for comparisons. In Table 4 five years stand out for high farm income--1950, 51, 52, 73 and 74; low income years are more recent--1980, 82 and 83. There really isn't much trend in the total, however, and it should be mentioned that this total is being divided by fewer people each year.

Table 4 U.S. Farm Net Income 1950-1983 - Deflated 1967=100

Decade	Net Farm Income Deflated									
	0	1	2	3	4	5	6	7	8	9
1950	18.9	20.5	18.8	16.2	15.4	14.1	13.8	13.1	15.2	12.3
1960	13.0	13.3	13.3	12.8	11.3	13.6	14.4	12.3	11.88	13.0
1970	12.4	12.4	15.6	25.9	18.5	15.8	11.8	10.9	14.2	14.8
1980	8.6	11.4	7.7	5.4						

Source: Op cit., Table 52.

Table 5 provides the history of off-farm income and, with exceptions for the recent recession, the trend has been slowly up, again being divided among fewer farm families. Though recent drops in farm income increase the portion of off-farm income, it might be reasonable to expect off-farm income to remain at or above 50 percent of total farm family income in the future.

Table 5 Farm Population Personal Income From Off-Farm Sources 1950-83
Deflated 1967=100

Decade	Net Off-Farm Income Deflated									
	0	1	2	3	4	5	6	7	8	9
1950	8.7	8.4	8.5	8.0	7.8	7.7	8.1	7.8	7.7	8.2
1960	8.2	8.5	9.2	9.8	10.5	11.2	11.5	11.7	12.3	12.7
1970	12.5	12.6	14.2	14.8	14.9	11.7	11.4	11.3	12.5	12.2
1980	11.6	11.0	10.5	11.2						

Sources: Op cit., Tables 51 & 52.

The major change in American agriculture in the past 35 years is not the increasing concentration of total agricultural production on fewer large farms, nor the increasing numbers of small farms; the major change in these years is the increased proportion in off-farm income being earned by farm families. As we look at farm families, this increase in off-farm income is of utmost importance and we had better increase our ability to evaluate its sources, opportunities and impacts.

DO WE ACT ON WHAT WE SEE?

Off-farm income is very important to American farm and ranch families and has been important for a long time. Yet we know very little about its generation or its impact on American farm families and their farming decisions. If analysis of off-farm income and

its relationship to rural communities is going to be done, the Land Grant institutions are the U.S. institutions capable of this research and education task. Land Grant institutions need to increase their understanding of the interrelationships between rural economic opportunities and problems faced by rural residents as they attempt to make a living.

Across the nation currently the Land Grant structure is working hard to deal with the "farm financial crisis." The profitability of U.S. farms has been a problem for many years of this century. It appears that farm and ranch families have generated increasing amounts of off-farm income as a partial response to their problem with farm profits. This strategy of generating off-farm income is not as well understood as the phenomenon of farm labor reduction which started in the 1920's as people actually left American farms in great numbers.

So what is seen as the problem? A current report, "Regarding Farm Profitability in America: A Cooperative Extension System Response," published by the Extension Committee on Organization and Policy in December of 1984, carefully outlines the situation of American farms. The outlook projected might be summarized as:

- . excess capacity
- . weak demand for agricultural commodities
- . irratic export markets
- . unstable production, prices, exports and income
- . continuing financial stress
- . cash flow problems
- . need for debt and asset restructuring

I believe the Committee is correct in their outlook. Perhaps they could have

stopped with identification of excess capacity as the long term problem, since the other problems really relate to the capacity issue.

The phenomenon of excess agricultural capacity seems on first analysis to be an attractive problem. It has meant lower food costs, higher food quality and greater variety as farms have attempted to find more profitable cropping and market alternatives. This excess has encouraged the use of new techniques in agricultural production around the world and has at times permitted limited famine relief. Yet it has also become increasingly necessary for the U.S. to sell large quantities of its products abroad in order to create enough total demand to sustain attractive prices allowing American farmers to profit.

Expansion of demand is basically tied to economic development in the poor nations of the world. They must be economically strong in order to pay cash for the food products from the U.S. World weather and political change will create short term variations up and down on the demand situation; but for profitable U.S. agriculture, sustained exports are needed given current production capacity. The compounding circumstance in this situation is the diametrically opposed positions of incentives for U.S. agricultural policy and the management decisions of individual agricultural operators. Nationally we would be well advised to cut back our production; individually the incentive is to produce as much as possible if certain costs can be covered. The result is a very difficult environment from which to develop helpful national policy. The farm family solution has been to seek off-farm income alternatives. This now seems true for both those who left the farm and those who remained.

What is seen as the solution? Removing labor has not decreased production, as capital has substituted for labor. The land stays in production. Perhaps we need to identify adjustments available to American farm and ranch families that would permit them to continue farming. This scholarship should appeal to two major philosophies associated with agriculture. Some feel agriculture is a

way of life, while others view farming as a business. It would seem that understanding and perhaps assisting farm and ranch families to secure more off-farm income can assist more people to remain on farms and sustain the desired way of life. And for those with a business orientation, evaluating the allocation of labor, capital and management investment in off-farm activities is in keeping with their view of appropriate business management alternatives and decisions. This understanding of off-farm income alternatives could assist in a positive way to reduce the total resources invested in agriculture while remaining focused on sustaining the income of farm and ranch families and permitting people to remain occupied in agricultural pursuits.

As we look at the research education agenda for American agriculture, biological engineering, soil productivity, water use and market development issues stand out as very important. However, not mentioned in this frequent listing of high priority research and education needs is the issue of off-farm income and its long-term role in sustaining the ability of farm and ranch families to continue farming. The national research-education agenda of the Land Grant institutions needs to include a priority for determining the importance and influence of off-farm income on American agriculture and what is involved in generating off-farm income for American farm and ranch families.