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FIVE MYTHS ABOUT THE STATE OF THE AMERICAN FARMER

INTRODUCTION

Debates about federal agricultural policy often are long on emotion and rhetoric and short on facts. At no time was this more apparent than during congressional consideration of the Food Security Act of 1985, which set a five-year program for federal farm policy. To be sure, there are problems in U.S. agriculture, but the debate in Congress and in the media distorted and oversimplified the situation on the farm. One of the more ludicrous moments in the debate was the appearance before a congressional committee by a trio of Hollywood "farm movie" actresses to give their view of the agricultural situation.[1] The image makers had become the experts.

Today, barely fifteen months since passage of the Food Security Act, the legislation is generally considered a failure. Despite the expenditure of a record $25.8 billion in Fiscal Year 1986 and an expected $25.2 billion in Fiscal Year 1987, the condition of American agriculture has not changed significantly. Congress thus is gearing up for a new farm bill this year. The proposals offered by lawmakers range from reducing Washington's control over farmers to imposing mandatory limits, set by Washington, on what each American farmer can grow.[2]

As policy makers begin this review process, they should separate fact from fiction, and Hollywood from reality. They should discard

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1. See Lois Romano, "The Farm Act: Fonda, Lange & Spacek Draw a Crowd on the Hill," The Washington Post, May 7, 1985.

2. For a description of some of the options being discussed, see "Toward Agricultural Policy Reform," Economic Report of the President (1987), pp. 147-178.

the myths that have befogged farm policy debates in the past, including:

1) Farmers are generally poor. The fact: The average net worth of U.S. farms is over a quarter of a million dollars, and the average income of farm operators exceeds $30,000, much higher than that of most Americans.

2) Most farmers are in deep debt trouble. The fact: While debt problems have increased, a majority of farmers are still relatively unburdened by debt. Almost 80 percent have debt-to-asset ratios of under 40 percent, with an average of about 10 percent each.

3) Farmers are leaving the land at unprecedented rates. The fact: The rate of decrease in the number of farms and in farm population has been much lower in recent years than in the 1950s and 1960s.

4) The family farm is disappearing. The fact: Only about 7,000 of the nation's farms, and one and one-half percent of the land, is owned by corporations. The "family farm" is not disappearing, although it is changing.

5) Federal subsidies go to farmers in need. The fact: The majority of these subsidies go to large, well-off farmers, and are not effectively directed to those who need them most.

MYTH #1: FARMERS ARE GENERALLY POOR

Most U.S. farmers are not poor, despite what Hollywood and television portray. In fact, in terms of assets, the average farmer is doing quite well. According to the U.S. Department of Agriculture (USDA), the average U.S. farm (including land, equipment, and inventory) has a net worth of $251,963. The largest farms--those with annual sales of half a million dollars or more--have an average net worth of $1,685,350. But even the smallest farms have significant net worths. The lowest income category of farms--those with sales of less than $10,000 per year--have an average net worth of about $135,000. Farms with sales of $100,000 to $250,000, mostly owned by full-time "family" farmers, have a net worth of over $350,000.

In terms of net worth, farmers are far wealthier than the average Americans. Some 61 percent of farm households have a net worth of over $100,000. Barely 21 percent of all Americans have a net worth that high. Over 11 percent of farm households have over $500,000 in net worth, compared with less than 2 percent of all Americans.[3]

Table 1

FARM BALANCE SHEET, 1986
(per farm operation)

	ASSETS	DEBT	NET WORTH
ANNUAL GROSS SALES			
All farm operations	$325,087	$73,124	$251,963
$500,000 and over	2,335,929	650,579	1,685,350
$250,000 to $499,999	831,945	263,340	568,605
$100,000 to $249,999	504,524	153,780	350,743
$40,000 to $99,999	320,895	67,712	253,183
$20,000 to $39,999	233,144	36,094	197,050
$10,000 to 19,999	174,258	22,251	152,007
Under $10,000	147,614	12,333	135,281

Source: Financial Characteristics of U.S. Farms, January 1, 1986, Economic Research Service, USDA, Bulletin #500, p. 27.

The average farmer can hardly be considered poor in terms of annual income. As table 2 indicates, the net cash income of U.S. farm operators was $13,479 in 1985. The largest farm operators averaged $237,597 in net cash income from farming, while the smallest farmers, the so-called "hobby" farmers, where the owners do not depend on the farm for their income, operated at an average loss of $3,058. The

3. Family Farms: Their Place in the Farm Sector: How Well Are They Doing?, Economic Research Service, USDA, September 1986, p. 26.

income of the middle-sized farmers ranged from just under $11,000 to over $32,000.

Table 2

CASH INCOME FROM FARMING AND OFF-FARM INCOME 1985
(per farm operation)

ANNUAL SALES	CASH INCOME FROM FARMING*	OFF-FARM INCOME	TOTAL
All farm operations	13,479	22,757	36,236
Over $500,000	237,597	20,885	258,482
$250,000 to $499,999	68,479	14,650	83,129
$100,000 to $249,999	32,121	12,674	44,795
$40,000 to $99,999	11,932	19,166	31,098
$40,000 and under	-3,058	27,063	24,005

*Net cash margin after interest, including government payments.

Source: Financial Characteristics of U.S. Farms, January 1, 1986, Economic Research Service, USDA, Bulletin #500, p. 25.

Farm income alone, however, does not tell the full story of the income available to farmers. Most farmers derive a significant amount of their income from off-farm jobs, sometimes working 100 or 200 days a year off the farm. On average, each farm operator received $22,757 in such off-farm income in 1985, and farmers in the $40,000-$100,000 sales class typically received over $19,000 in off-farm income.

Thus the average farmer received over $36,000 in total income in 1985. This is more than $8,000 higher than the $27,765 median annual income for all American families in 1985.[4] Even middle-sized farmers in the $100,000-$250,000 sales class did much better than the U.S. median, with approximately $44,000 in income. Those in the lower

4. Economic Report to the President (1987), p. 52.

middle range, however, with $40,000-$100,000 in sales, had about $24,000 in total income.

These are average figures, of course, and within each category of farm there are many farmers making less than the average or even suffering large losses. As in the case of any other group of American businessmen and women, some farmers are poor, many are in the middle, and many are wealthy.

MYTH #2: MOST FARMERS ARE IN DEEP DEBT TROUBLE

The debt burden on farmers has increased substantially over the last several years. According to the Congressional Research Service, farmers' debt-to-asset ratio (the amount they owe compared with their assets) increased from 18.8 percent in 1981 to an estimated 25 percent in 1986.[5] Yet total farm debt actually decreased by about 1 percent during this time. The increase in the ratio has been caused not by an increase in debt, but by a 25 percent decrease in farm assets, caused mainly by falling land values.[6] Despite the recent increase, the debt levels in agriculture are much lower than in many other industries. Example: The debt-asset ratio for manufacturing corporations exceeds 50 percent.[7]

The debt ratio situation, moreover, has not affected all farmers uniformly. According to a recent General Accounting Office report, 78.7 percent of farms had debt-to-asset ratios of 40 percent or less in 1985. On average, the debt carried by these farmers was only about 10 percent of their assets.[8]

Only a small percentage of farms are in severe debt trouble. Less than 5 percent of American farms, for instance, had debt-to-asset ratios in 1985 between 70 percent and 100 percent, while a mere 4 percent were technically insolvent with debt ratios of over 100 percent.[9] Admittedly, the number of such farms is increasing--it

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5. Remy Jerenas, Financial Condition of the Farm Sector and of Farm Lenders, Congressional Research Service, October 9, 1986, p. 3.

6. Ibid.

7. The State of Small Business: A Report of the President (1986), p. 68.

8. General Accounting Office, Farm Finance: Financial Condition of American Agriculture as of December 31, 1985, September 1986, p. 47.

9. Ibid.

was 3 percent in 1984--and the financial condition of these farms cannot be taken lightly. Yet they constitute a very small fraction of farms.

MYTH #3: FARMERS ARE LEAVING THE LAND AT UNPRECEDENTED RATES

The farm population is shrinking. From 1981 to 1986 the number of farms decreased by 220,000, and the total farm population decreased by 624,000. However, this decrease is nothing new. It conforms to a long-term trend in this and other countries. The American farm population has been steadily shrinking through most of this century and has been decreasing as a percent of the total U.S. population ever since records were first kept. In 1900, for example, over 40 percent of Americans lived on farms. This figure decreased to about 15 percent by 1960, and stands at 2.2 percent today.[10]

In fact, the rate at which farmers have been leaving agriculture in the last few years has been quite low compared with earlier periods. The great exodus from farming reached its peak about 30 years ago. In 1950, there were about 5.6 million farms in America. By 1955, this number had decreased to about 4.7 million, or a drop of over 17 percent in just five years. And by 1975, there were about 2.5 million farms, a decrease of over 50 percent in 25 years.[11] Between 1950 and 1970, the number of Americans living on farms decreased by almost 58 percent, from about 23 million to just over 9.7 million.[12]

During the 1970s, this exodus almost stopped entirely, as agriculture enjoyed nearly a decade of prosperity. From 1975 to 1980, the number of farms decreased by just 3.5 percent. More striking, the number of Americans employed in agriculture stayed about even. Indeed, there were actually 7,000 more Americans employed in agriculture in 1982 than there were in 1971.[13]

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10. Bureau of the Census, Historical Statistics of the United States: Colonial Times to 1970, p. 457; Bureau of the Census, "Note to Correspondents," February 18, 1987.

11. Economic Indicators of the Farm Sector: National Financial Summary, 1985, Economic Research Service, USDA, p. 12. Other figures on the number of farms cited in this section are from this source.

12. Population of the United States, 1985, Census Bureau and Economic Research Service, July 1986, p. 1. Other figures on farm population cited in the section are from this source.

13. Economic Report of the President (1987), p. 280. The farm population did continue to decrease during this time, dropping almost 25 percent.

Table 3

THE DECREASING NUMBER OF FARMS

YEAR	NUMBER OF FARMS	DECREASE	PERCENT CHANGE
	(in thousands)		
1950	5,648	--	--
1955	4,654	994	-17.6
1960	3,963	695	-14.8
1965	3,356	607	-15.3
1970	2,949	407	-12.1
1975	2,521	428	-14.5
1980	2,433	89	- 3.5
1985	2,275	158	- 6.5
1986	2,214	71	- 2.7

Source: Economic Indicators of the Farm Sector: National Financial Summary, 1985. 1985 and 1986 numbers from National Agricultural Statistics Service, Crop Report, August 1986, p. A-30.

The exodus from farming has resumed in the 1980s, but at a much lower rate. From 1980 to 1985, the number of U.S. farms decreased only 6.1 percent, less than half the rate seen in the 1950s and 1960s. Overall, the percentage decrease in the number of farms between 1975 and 1985 was the smallest the nation had seen in any decade since the 1930s. In absolute terms, the difference is even more striking. During the 1950s, the number of farms decreased by over one and a half million. From 1975 to 1985, the decrease was less than 250,000--one-sixth the decrease in the 1950s. In fact, almost as many farms closed in 1952 alone as were lost during that entire period.

Similarly, the farm population dropped only 9.1 percent between 1981 and 1985, a fraction of the declines experienced earlier. The Census Bureau reported in February that it found 129,000 fewer people living on farms in 1986, a change that it said was "not a statistically significant decline" compared with 1985.[14] While almost seven and a half million Americans left the land during the 1950s, barely one-tenth that number have left since 1981.

14. Note to Correspondents, op. cit.

MYTH #4: THE FAMILY FARM IS DISAPPEARING

According to the most recent Census of Agriculture, the vast majority of American farms are still operated by families or individuals. As of 1982, 86.9 percent of American farms were owned by families or individuals, and they farmed over 75 percent of all U.S. cropland. Another 10 percent of farms, representing about 16 percent of cropland, were owned by partnerships. Only 2.7 percent of farms and 13.6 percent of farmland were owned by corporations. The vast majority of these corporations, moreover, actually were family-owned. Only about 7,000 farms, holding about 1.5 percent of farmland, were owned by nonfamily corporations.[15]

Of course, most of the farms that are family-owned do not really fit in the category of "family farm." That term has come to mean much more than technical ownership by a family. It connotes a way of life, where the farm is big enough to support a family, but not so big that the family hires employees to operate the farm.

The majority of U.S. farms are too small to be considered family farms in this sense. About 70 percent of farms bring in $40,000 or less in gross sales each year. These farms rarely are a major source of income for their operators. In 1985, in fact, they averaged a $1,635 loss each.[16] But these farms usually are not intended to support families. They are for the most part operated as hobbies or as sources of extra income for Americans who work in the city. For instance, such farmers may work full-time in a nearby town in another job, but work their farm on weekends for extra cash or relaxation.[17]

At the other end of the spectrum are large farms, with gross sales of $250,000 or more. They are small in number, about 93,000, or 4.1 percent of all farms.[18] Nevertheless, these farms are responsible for close to half the gross farm income each year.

In the middle are farms with gross sales of roughly $40,000 to $250,000. It is in this group that most farms considered family farms

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15. Bureau of the Census, 1982 Census of Agriculture, p. 35. Going further, only 1,443 of these nonfamily corporations had ten or more shareholders.

16. Economic Indicators, op. cit., p. 43. The loss per farm operator was 3,058. See table 1.

17. As one part-time farmer put it: "A lot of people play golf or tennis. I feed hogs." Quoted in "Keeping 'em Down on the Farm is Easy," Kansas City Times, September 22, 1984, reprinted in a special report, "The American Farm."

18. Economic Indicators, p. 42.

can be found. This category includes about a fourth of all farms and produces about 40 percent of gross income.

And this class of farms has been struggling the most in recent years. Yet they are not "disappearing." In fact, the share of total sales produced by large and small farms has remained remarkably constant over the last 25 years. The largest 1 percent of farms accounted for roughly 30 percent of production in 1960 and account for about the same proportion today. At the other end of the scale, one-half of U.S. farms accounted for only 3 percent of production in 1960, the same as their share today.[19]

While family-type farms are not disappearing, they have been changing vastly over the years. They are very different from the idealized Norman Rockwell farms pictured in popular literature, box-office movie hits, and congressional rhetoric. They are not being taken over by large, monolithic corporations, they are becoming more businesslike themselves.

The most obvious sign of this is the continuing increase in the size of American farms: while in 1950 the average farm was 216 acres, in 1985 the average stood at 455 acres.[20] The owners of these growing farms rarely are the self-sufficient individualists of the history books. Instead of growing the family food, the average farmer is more likely to buy food at a supermarket. Instead of being poorly educated, today's farmer is likely to be as well-educated as city-dwelling Americans. Rather than depending solely upon the farm for his or her livelihood, the "family" farmer is very likely to get much, if not most, of his income from an off-farm job.

While hard work remains a primary requirement for farmers, technology is moving in. Computers, for example, are increasingly finding a place on the farm. They are used for everything from bookkeeping to keeping track of prices at the major trading centers. Some do more. On some dairy farms, for example, a computer--instead of a friendly farmer--now greets each cow as she arrives at the stall

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19. Family Farms, op. cit., p. 5. Exact determination of how the proportion of farms in each sales class has changed over the years is difficult because the available data do not adjust for inflation. One recent study, however, found that the percentage of farms with receipts between $40,000 and $200,000 actually rose from 15.3 percent to 19.7 percent between 1969 and 1978. Daniel A. Sumner, "Farm Programs and Structural Issues," in Bruce L. Gardner, ed., U.S. Agricultural Policy: The 1985 Farm Legislation (Washington, D.C.: American Enterprise Institute, 1985), p. 294.

20. 1982 Census, op. cit.; Crop Report, op. cit.

each morning, reads a small tag around her neck, and decides how much feed to give her based on how productive she has been.[21] The family farm still is the most common type of farm and is not in immediate danger of disappearance, but it is very different from its movie image.[22]

MYTH #5: FEDERAL SUBSIDIES GO TO FARMERS IN NEED

Federal farm programs are usually defended as an essential means of helping struggling farmers, who otherwise would not be able to make it on their own. The truth is, only a small portion of the federal grants, subsidies, loans, and other funds ever reaches struggling family farmers. Federal funding for farmers is concentrated in certain sectors of U.S. agriculture. Crops such as wheat, corn, and cotton, receive substantial subsidies. But other crops, representing about half of U.S. agricultural production, including vegetables, fruit, cattle, hogs, and poultry, operate very successfully without direct subsidies.[23]

In the case of those crops that do operate with subsidies, they go disproportionately to the largest farms. Of the $7.7 billion in direct federal payments made to farmers in 1985, 13.3 percent went to the 1.3 percent that were the largest U.S. farms--those with annual sales of $500,000 or more. Almost a third of all direct payments were made to farms with sales of $250,000 or more, although they constitute only 4.1 percent of U.S. farms. And over two-thirds of government payments went to farms with over $100,000 in sales, constituting less than 14 percent of all farms. This maldistribution results in bonanzas for many large farmers. One company in California's San Joaquin Valley, for instance, collected over $20 million in benefits in 1986. Another company in Texas, partly owned by the crown prince of Liechtenstein, received $2.2 million in subsidies from the taxpayers last year.[24]

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21. See, "Computers Taking Root, Doing More Work on the Farm," Kansas City Times, November 19, 1984, reprinted in "The American Farm," op. cit.

22. See also, Gregg Easterbrook, "Making Sense of Agriculture," Atlantic Monthly, July 1985, pp. 63-78.

23. Many fruit and vegetable crops, however, are governed by production controls, in which the ultimate cost is paid by consumers rather than taxpayers. See James Gattuso, "The High Cost and Low Returns of Farm Marketing Orders," Heritage Foundation Backgrounder No. 462, October 15, 1985.

24. "Golden Eggs for Rich Farmers," The New York Times, December 26, 1986.

Table 4

DISTRIBUTION OF FEDERAL DIRECT GOVERNMENT FARM PAYMENTS 1985

TOTAL SALES	PERCENT OF PAYMENTS	PERCENT OF FARMS
$500,000 and over	13.3	1.2
$499,999 to $250,000	18.7	2.9
$100,000 to $249,999	36.8	9.7
$99,999 to $40,000	21.8	14.2
$39,000 and under	9.5	72.0

Source: Economic Indicators of the Farm Sector: National Financial Summary, Economic Research Service, USDA, pp. 42, 46.

Those farmers experiencing financial difficulties, meanwhile, receive only a small share of federal funds. Only about 24 percent went to farmers operating in the red. Of these, only about two-thirds had debt-to-asset ratios of 40 percent or more. The USDA usually considers a farmer to be "financially stressed" if he or she has a debt-to-asset ratio of 40 percent or more and has a negative cash flow. Thus, under this definition, only about 16 percent of the federal money distributed in 1985 actually went to farmers in financial stress.[25] Conversely, not all of the farms defined as financially stressed received assistance. According to the same study, only half of the farms in financial trouble received any payments at all.

The reason for the gross maldistribution of benefits in the farm programs is simple. Subsidies are calculated not according to need, but according to the annual production of each farm. Thus, a large,

25. Calculated from figures provided in memorandum from John E. Lee, Administrator of the USDA Economic Research Service, to Bob Milton, USDA Office of Economics, August 19, 1986.

financially secure farm can be eligible for a big subsidy payment, while a struggling farmer with a small crop receives less help.[26]

CONCLUSION

Congress soon will be considering a wide range of legislation intended to help the American farmer. Such a review is long overdue. The current farm programs cost over $25 billion last year and may be doing farmers more harm than good. Nevertheless, debates on farm issues in Congress and the media too often tend to based on misconceptions about the current state of the American farmer.

In fashioning remedies for the acute problems of some farmers, policy makers must remember that farmers as a group are not generally poor. Some farmers are in deep financial trouble, but the vast majority are not. The decline in the number of farmers is part of a very long-term trend, but the family farm is not disappearing. And farm subsidies, however well-intentioned, are not going primarily to farmers who are in need. Carefully directed approaches, based on fact, are needed, not billions of federal dollars, based on fiction.

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26. Payment limitations of $50,000 per person for direct subsidies, and $250,000 overall are now in effect, but because of difficulties in defining what constitutes an individual farmer, these limits are easily avoided.