Agriculture by Robert Baker

USDA 'helps' count farm income

How a bureaucrat can measure nonmoney income and find farmers doing fine—in the worst drought since the 1930s.

The U.S. Department of Agriculture has spent the last three months monitoring and analyzing what is being called the "worst drought since the 1930s." The latest USDA quarterly report, *Agricultural Income and Finance Situation and Outlook,* dated September, gave an interesting perspective on who is being affected, what is happening to incomes and why, and what is being done to help those in trouble.

Even though this year's drought is deemed one of the worst in history, according to the USDA, net cash income could be $55-60 billion, which is about equal to last year's record all-time high of $57.1 billion. These numbers may look encouraging. On closer inspection, some amazingly creative accounting seems to be taking place.

Typically, net farm income measures the value of goods and services produced by farm operators minus the cost of goods and services used. The USDA uses two accounting terms to measure net income on the farm, called "net cash income," and "net farm income." The "net cash income" figure is always higher than the "net farm income" figure.

Net cash income measures all cash income minus all cash expenses and is not a good gauge of year-to-year farm progress, as it does not reflect value changes of inventory that is not marketed. For example, during this drought year, many farmers were forced to sell their beef-cow herd. The cash from this sale will be reported as income for both the "net cash income" and "net farm income" figure: However, in the "net farm income" figure, a further calculation will be made to reduce the value of the beef-cow inventory by the amount sold.

The "net cash income" figure is often used by government officials when discussing the "blessed" rebound of agriculture, because it is typically bigger than "net farm income" and tends to make a bad situation, such as the 1988 drought, seem less severe. The "net farm income" figure, which reflects inventory changes, is the standard typically used by accountants. When the USDA uses this more accurate figure, "net farm income" is projected to be $38-43 billion as compared to $55-60 billion of the "net cash income" figure.

Thus we find that "net cash income" is about the same as last year, but "net farm income" will go down by 12-18%—seemingly more in line with the drought.

In dissecting the "net farm income" figure, we find that it includes a USDA-created value known as "nonmoney income," i.e., the value of home consumption of self-produced food and imputed gross rental value of farm dwellings. In other words, the USDA believes that the value of farm-grown produce and meat that is consumed by the farmer and his family, as well as the potential unearned income a farmer's house and buildings would receive if he rented them out and didn't use them himself, should be included as income to the farmer in the net farm income figure.

In the last 10 years, USDA-calculated nonmoney income in U.S. agriculture has ranged from $9-14 billion per year. *EIR* calculations based on USDA data show that when compared to gross farm income over the last 10 years, nonmoney income amounts to 7-8% per year of total gross farm income—no small sum. However, when nonmoney income is compared to what the farmer really makes after expenses, net farm income, an even more interesting picture emerges.

According to revised figures by the USDA's Economic Research Service, projected nonmoney income for 1988 will be about 26% of the USDA calculated net farm income. This means that one out of four dollars considered as net farm income will be nonmoney. In 1982, 61% of net farm income was nonmoney income. In 1980, another dryer-than-normal year, nonmoney income amounted to 76% of net farm income. And in the 1983 drought year, nonmoney income was an unbelievable 106% of net farm income.

This means that in 1983, the average U.S. farm had a negative net farm income, but because the USDA added $13.5 billion of nonmoney income to its gross farm income figure that year, net farm income for that year could be reported as $12.7 billion.

What other country has allowed its farm sector a tax-free, tax deductible, all-you-can-eat-smell-and-touch nonmoney income? What is a whiff of nontaxable barnyard vapor worth-$.25 to $.50 per whiff? A large farm family that consumes gobs of home-grown vegetables and meat can increase its net farm income by doing so. Woe to the farmer who has a small garden and no livestock or buildings with which to generate nonmoney income.

To keep farmers in business, the USDA has given them dairy herd buyouts, land set-aside diversion payments, deficiency payments, 10-year Conservation Reserve Programs, and below-parity subsidized grain prices. Now it comes out, that during those really tough income years when all else failed, nonmoney income has secretly provided a non-rescue to who knows how many farmers.