

Title: *Farm Operator Households: Moving Beyond Money Income Measures to Assess Level and Inequality in Economic Well-being*

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Household income is a standard measure of economic well-being. While it has strengths and weaknesses as an indicator of economic well-being for a typical household that derives the overwhelming share of its income from labor earnings, it is less informative for self-employed business operators, who typically have more variable income and higher wealth than the average household. For example, mean household income of farm operator households has consistently surpassed that of all US households since 1996 by an average of 12% - with the difference jumping to 43% in 2004. On the other hand, total income of farm operator households is more variable, and as an aspect of that, the 14% poverty rate (based on an income-threshold) of farm operator households exceeds the average U.S. household poverty rate of 11%. At the same time, wealth is substantially higher, and more equally distributed, among farm operator households than among all U.S. households. Consequently, farms that incur farm business losses that reduce household net income in a given year nonetheless may be able to maintain their living standards by borrowing against, or liquidating, assets.

In this paper, we explore alternative measures of economic well-being for farm operator households, as an example of self-employed business operators, and highlight the implications of the alternative measures for findings regarding inequality of selfemployed relative to other households in the economy. We analyze data from USDA's annual survey of farm operator households (ARMS), which includes detailed data on business and household income and wealth, as well as total household income for the prior year. Also - for the first time this year - we are able to estimate after-tax income from the before-tax survey responses. With these survey data, we are able to differentiate households that have low incomes due to lack of human or financial resources, from those that have substantial capital resources on which they incurred substantial losses in a given year. First, we address the differences in measurement concepts between the accounting-based measures of self-employment business income, relative to economic measures of return: to what extent are the losses attributable to the accounting conventions for reporting income? We explore the impact of depreciation (as allowed by the tax code, rather than by economic measures), and to some extent, the role of holding product inventories over to the next year (the challenge of cash accounting systems used for annual income reporting vs. the more economic framework of accrual systems.) We also will be able to estimate after-tax income, which allows us to examine the contribution of the farm business to household tax deductions. Then, we will then highlight alternative measures of inequality and poverty in the sector, combining income and wealth measures. And finally we will consider the differing implications of the alternative measures for inequality assessments. An important aspect of the analysis is identifying the heterogeneity of sources of income for farm households. We separate the sample into key sub-groups in terms of the allocation of household labor and capital resources to income-generating activities – based primarily on the allocation of household labor, and also capital.