Political Rhetoric, Emotional Arguments and Reality... Is There Any Connection?
By Danny Klinefelter

I got into the office this morning, turned on my computer and the first message I read was about limiting government payments to “millionaire” farmers and “corporate” agriculture.

What is a millionaire farmer anyway? Is it based on net worth? The farmer who spent 30 years paying off 160 acres in central Illinois or Iowa is probably a millionaire.

Is it $1 million gross sales? In a normal period, the typical farmer would have a net before tax income of around 10 percent on sales. He probably worked over 40 hours a week and took all the risks associated with running a business, so I’m not sure I would consider him to be part of the undeserving rich.

If it’s net income per person and we use the magic $250,000 before tax net income that is the general criteria being used to separate the rich from the middle class in income tax politics, then that would translate to roughly $2.5 million gross sales per person/family unit, which is not the same as per operation.

What about corporate farms? I assume the rhetoric is about outside investors or publicly traded companies; but, the reality is that 98 percent of farm corporations are closely held family businesses that have elected a corporate legal structure for business or estate planning reasons. What is there that is inherently evil about a corporation?

When is comes to saving the family farm, who is being targeted? I understand that a 1600 acre corn and soybean operation run by a husband and wife with one hired man or a teenager who is still at home fits the definition. But what about a 5000 acre farm operated by a father and his two grown sons, which supports 3 families? Is it a family farm or one of the bad guys?

I also hear a lot of talk about the virtues of a competitive market. Yet, the same people often promote policies that prevent markets from working. A truly competitive market is very efficient, but also very impersonal and can be very cruel. The function of a competitive market is to drive the economic return to the average producer to breakeven through supply and demand responses in both input and output markets. In equilibrium the top end - not
necessarily the biggest - are profitable and growing, the average are hanging in there, and the bottom end are losing money and are forced to exit the industry. Being on the bottom isn’t always a matter of being a poor operator, it can often be a matter of timing. Those who haven’t built enough equity, are too highly leveraged or lack sufficient liquidity can be victims of getting caught in a cyclical downturn, particularly one as severe as we may soon be experiencing.

One thing to remember for those who favor the “letting the chips fall where they may”, i.e. the competitive market philosophy, is that each time the bottom layer gets weeded out, the level up becomes the next vulnerable group. What this means is that survival depends on continuous improvement at the pace needed to remain in the front half of the pack.

Just a few random thoughts. I would welcome some well thought out comments.

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