The 1980s U.S. Farm Crisis and Off-farm Labor Allocation

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The 1980s Farm Crisis

- The 1980s U.S. farm crisis remains the single greatest downturn in the farm economy since the Great Depression
- Average real net farm income fell by 35 percent for the 1980-1984 period compared to 1975-1979 (Johnson 1990)
- Average land values decreased by 50 percent across parts of the Midwest between 1981 and 1987 (Barnett 2000)

Source: Iowa Public Radio

The Booming 1970s

- In the 1970s, U.S. farmers experienced large increases in farm income primarily due to high commodity prices, a weak dollar, and increased demand for agricultural exports
  - From 1970 to 1979, real gross farm income grew at rate of 4.1% per year and the real value of agricultural exports increased by more than 100% (Calomiris et al. 1986)
- These economic returns encouraged farmers to expand production and invest heavily in farmland, largely through debt financing
- As a result, the real value of farmland increased by 88% nationwide and aggregate levels of farm debt rose by 67% between 1971 and 1980 (Calomiris et al. 1986)

"One farmer told a New York Times reporter that he had borrowed so much money to buy so much land that was going up in value so fast that every morning he 'woke up $8,000 richer'" (Barnett 2000, p. 373)

Causes of the Crisis

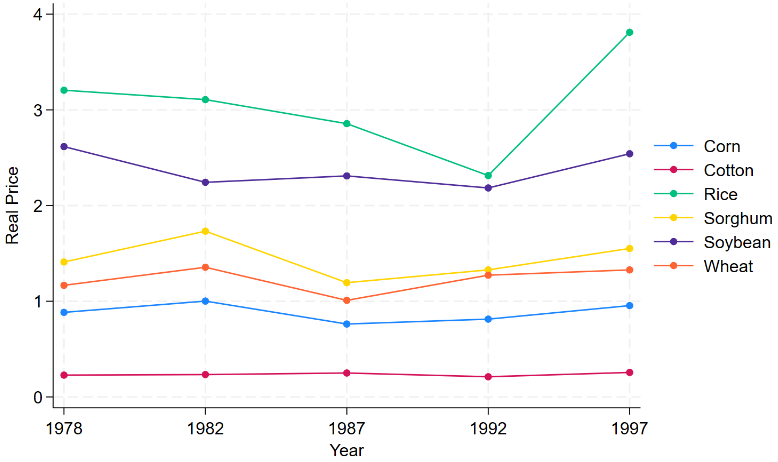
- In October of 1979, the Federal Reserve made the unexpected decision to drastically raise interest rates to curb inflation
  - The cost of borrowing increased and land values fell drastically in many parts of the country
  - The strengthened dollar reduced both the competitiveness of U.S. exports
- Then, in 1980, the U.S. imposed a grain embargo on the Soviet Union, further reducing demand for U.S. exports
- Low farm profits made it difficult for farmers to smooth cash flow, and in many instances, they could no longer repay their debts
  - As a result, agricultural lenders were no longer willing to refinance loans

Pain in Rural America

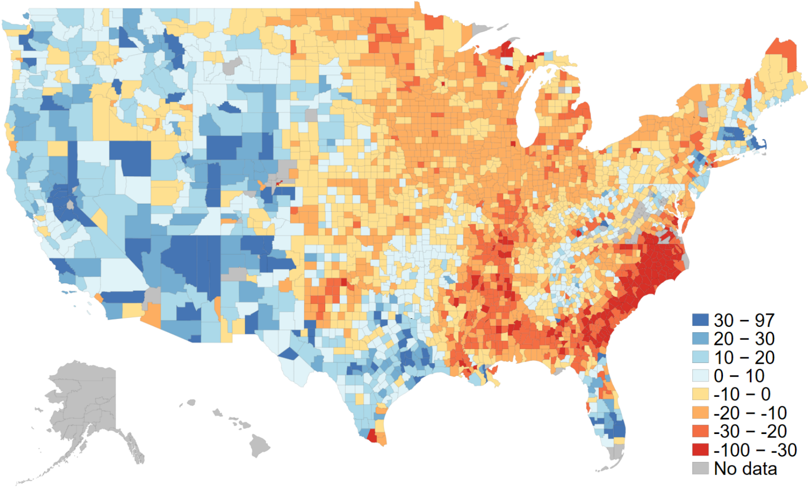
- Total farm debt peaked in 1983 at over $206 billion, with aggregate farm debt levels decreasing in the following years (Harl 1990)
- The Farm Credit System experienced losses of $2.7 billion and $1.9 billion in 1985 and 1986 (Barnett 2000)
- The farm economy slowly started to improve over the latter part of the decade due to large government payments to farmers and lower interest rates
  - However, it would take several more years for commodity prices, agricultural exports, and farm asset values to recover from the crisis

Source: Iowa Public Radio

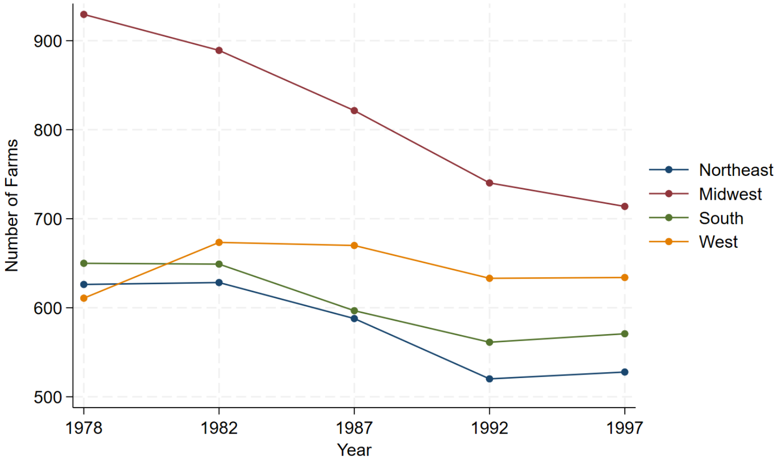
National Crop Prices Received by Producers



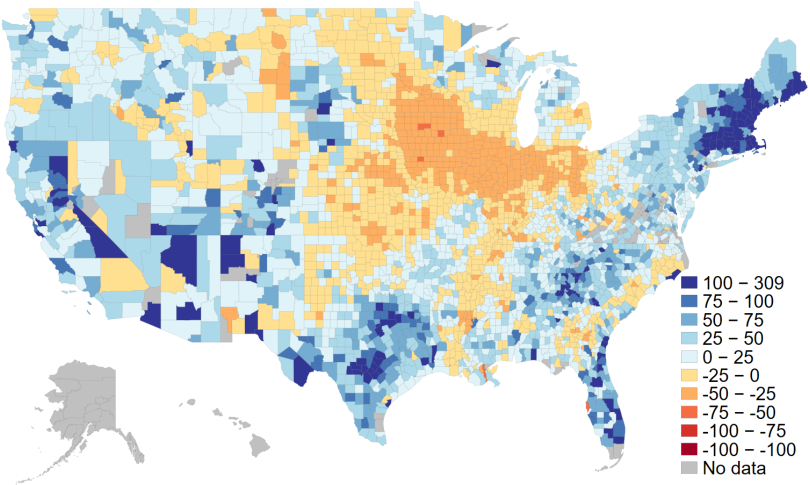
Percent Change in the Number of Farms (1978-87)



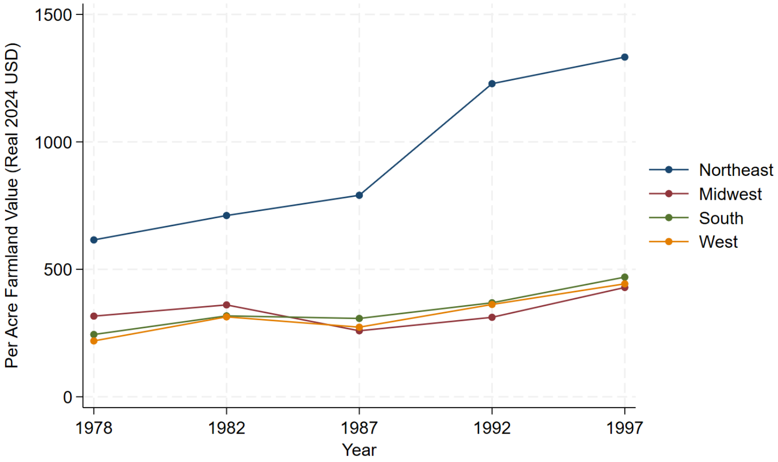
Average Number of Farms in a County



Percent Change in Per Acre Farmland Values (1978-87)



Average County Per Acre Farmland Values



"The 29 November and 2 December 1985 editions of the Washington Post contained articles by James Dickenson describing conditions in Odebolt, Iowa, and the surrounding county. Dickenson described how the county had endured three bank failures, forty farm bankruptcies, declines in school and church enrollments, and the loss of two major farm equipment dealerships." (Barnett 2000, p. 378)

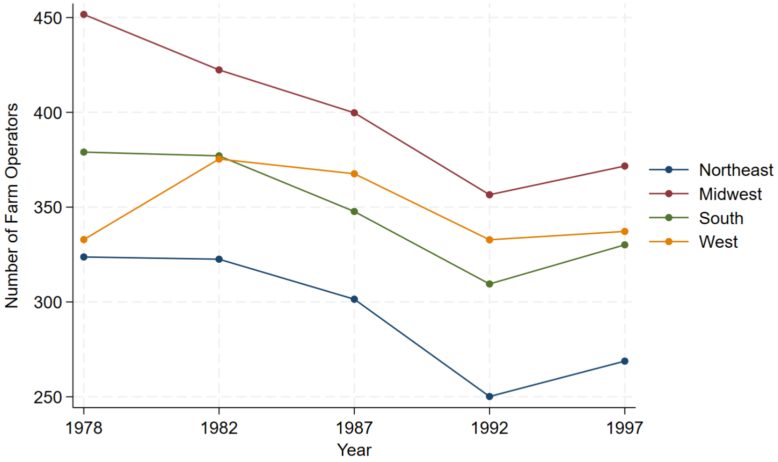
The Role of Off-farm Employment

- Farm households will often get an off-farm job in response to economic hardship
  - Mitigates risk to variability in farm income
  - Liu (2026) finds that farmers in high erosion counties are less likely to farm shortly after the dust bowl in 1940 but largely resume farming by 1950
- Most studies are unable to disentangle correlation from causation in the relationship between off-farm employment and risk mitigation

Structural Change in Farm Operations?

- In 1949, 39 percent of farm operators reported working off-farm, and by 1982 that share had grown to 54 percent (Huffman 1988)
- This trend has continued into the modern day, with income from off-farm sources constituting more than half of total household income for nearly 85 percent of U.S. farm households in 2023 (Lim et al. 2024)
- It is an open question whether the Farm Crisis accelerated the allocation of labor into off-farm employment over the latter part of the 20th century

Average Number of Farm Operators Working Off-farm in a County



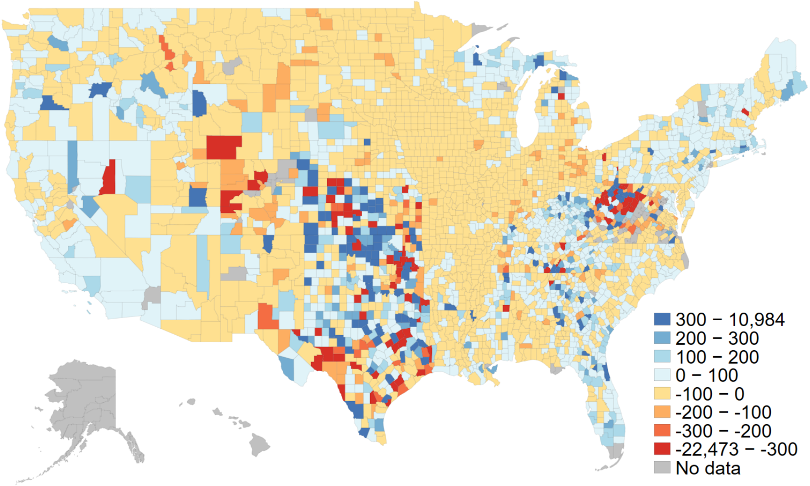
What We Know

- There are only a couple of studies who empirically study the farm crisis
- Bergman et al. (2020) show how local labor markets were affected during the peak of the crisis (1984-1987). They find that counties in Iowa with lower corn yields experienced:
  - Reductions in county-level agricultural employment and agricultural wages
  - Increases in county-level employment in the services sector but decreased service sector wages
  - Decreases in service sector employment in counties where farming is the dominant sector
  - These effects largely disappear in the years following the crisis as the economy improved and businesses are able to smooth their cash flows
- Yu (2023) finds that people born during the crisis have worse long-term health outcomes if their state experienced larger losses in farm wealth

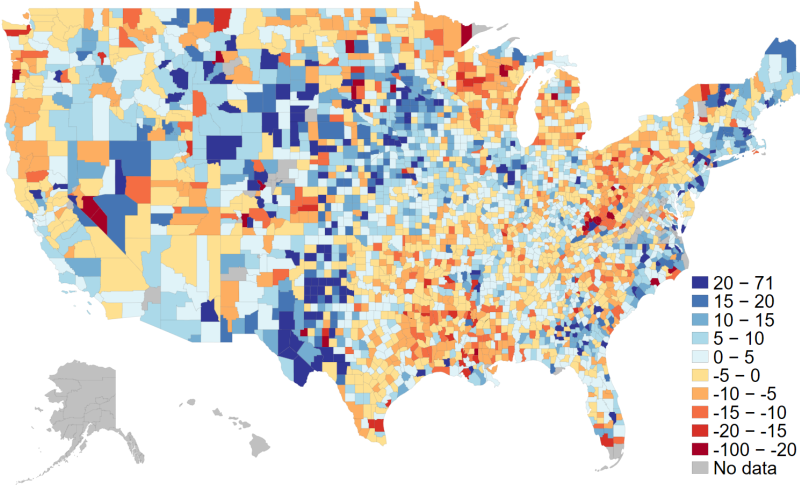
Research Questions

- How does the farm income shock in the early 1980s affect off-farm employment decisions for farm operators in the short and long run?
  - We leverage historical, county-level panel data from the Census of Agriculture for 1974-2012
  - County-level farm income data comes from the Bureau of Economic Analysis

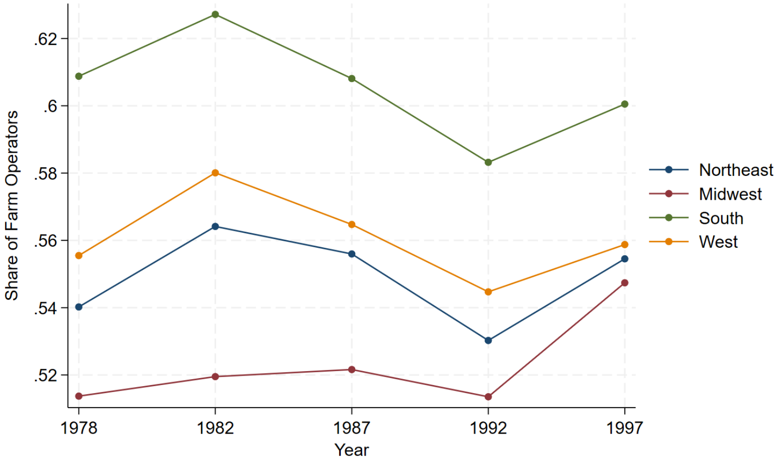
Percent Change in Farm Income (1978-82)



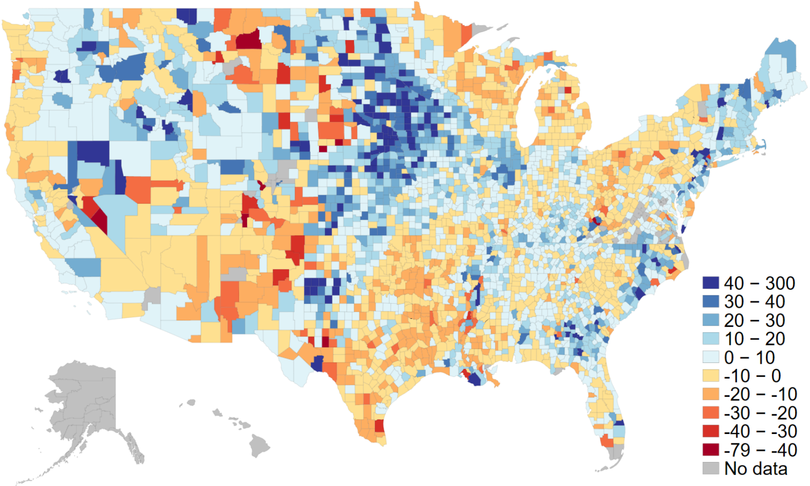
Percent Change in Share of Operators Working Off-Farm (1978-87)



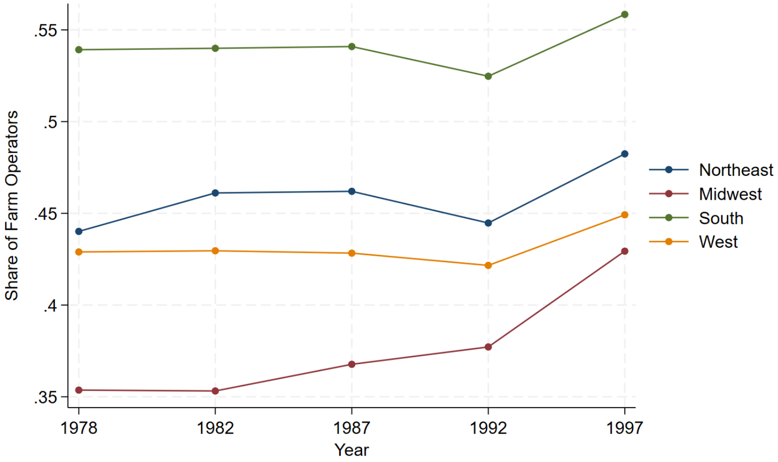
Average Share of Operators Working Off-Farm in a County



Percent Change in Share of Operators with Other Primary Occupation (1978-87)



Average Share of Operators with Other Primary Occupation in a County



Methods & Preliminary Results

- We examine the impact of the percentage change in county-level farm income from 1978 to 1982 on the following outcome variables:
  - The share and number of farm operators whose primary occupation is not farming
  - The share and number of operators working off-farm
  - The number of farm operators who work more than 100 days off-farm, and the number who work more than 200 days off-farm

- Our initial results suggest that farm operators in urban counties were more likely to have a different primary occupation or work in an off-farm job if they experienced a decline if farm income
  - Access to more diversified urban labor markets potentially helped operators adjust to the crisis
  - No effect when only considering rural counties and when considering both rural and urban counties

Moving Forward

- Find a way to estimate the causal effect of farm income shocks on the off-farm employment decisions of farm operators
- Examine how these effects differ based on relevant factors (e.g., average farm size, average off-farm wage rates, total government farm payments, and rural vs. ubran counties)
- What is your experience or your family's experience?

More Information & Further Reading

- Iowa PBS Documentary: The Farm Crisis
- Barnett, Barry J. 2000. "The U.S. Farm Financial Crisis of the 1980s." Agricultural History 74 (2): 366–80.
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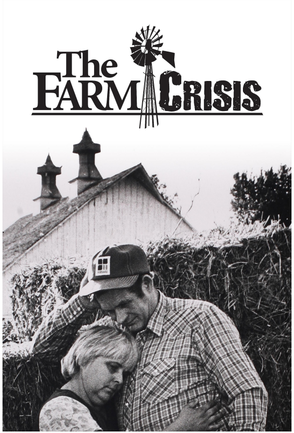

Source: *Iowa PBS*

Thank you! Any Questions?

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