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Saskatchewan's Farm Income Crisis

— by Darrin Qualman

On February 6, Agriculture and Agri-Food Canada (AAFC) released net farm income estimates for 2003. Those numbers showed that Saskatchewan farmers, like farmers in most other provinces, had just experienced their worst losses in history. The following looks at Saskatchewan farm incomes since World War II and attempts to determine why the crisis gripping Saskatchewan farm families is intensifying.

The Crisis

Figure A plots Saskatchewan gross farm revenues, per farm, and adjusted for inflation. Gross farm revenues have more than tripled over the past 5½ decades. Gross farm revenues spiked dramatically in the mid-1970s as world grain prices doubled and tripled. Revenues fell back in the 1980s as drought and poor grain and livestock prices hurt farmers. But by the mid-1990s, however, grain and livestock prices rebounded somewhat as did farmers' revenues. On a per-farm basis, and adjusted for inflation, gross revenues in the 1990s were similar to those in the 1970s.

Figure B shows, however, that while per-farm gross revenues in the 1990s approximately matched those in the 1970s, net incomes were much lower. While 1972-1979 per-farm net incomes oscillated between $30,000 and $70,000 per year, net incomes in the 1990s struggled to exceed $10,000 per year. While gross revenues in the 1990s matched those in the 1970s, net incomes were a fraction of their 1970s levels. Moreover, the net incomes depicted in Figure B, especially in the 1980s and '90s, include large government support payments. The next graph tells an even more troubling story.

Figure A. Saskatchewan per-farm gross revenue, adjusted for inflation: 1947-2003

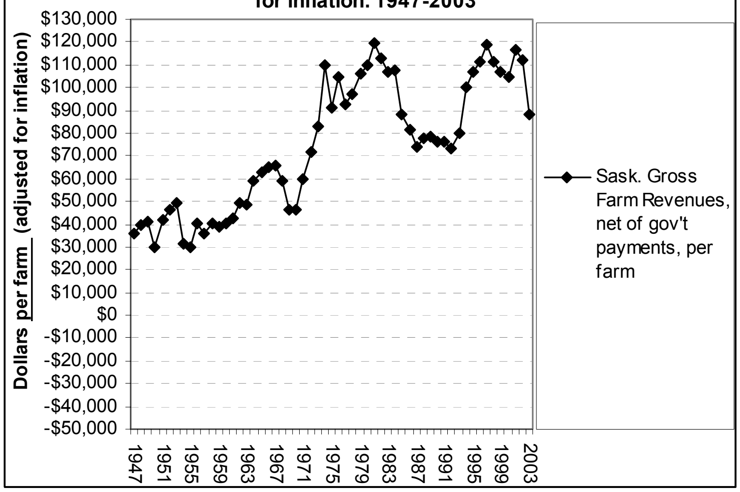


Figure B. Saskatchewan per-farm gross revenue and net income, per farm, adjusted for inflation: 1947-2003

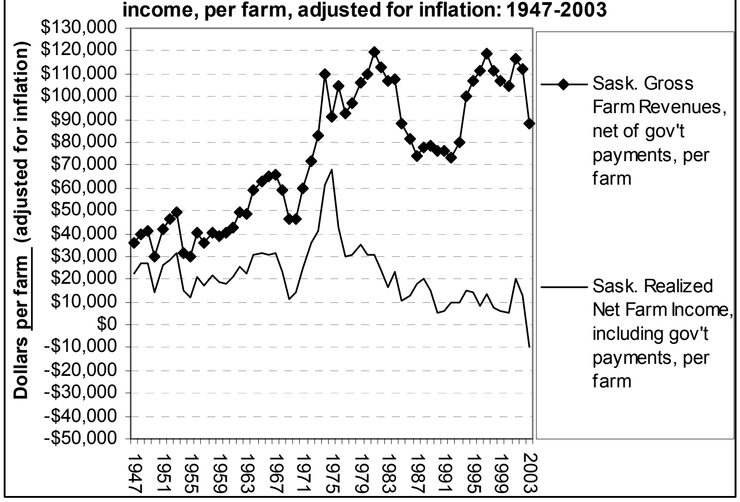
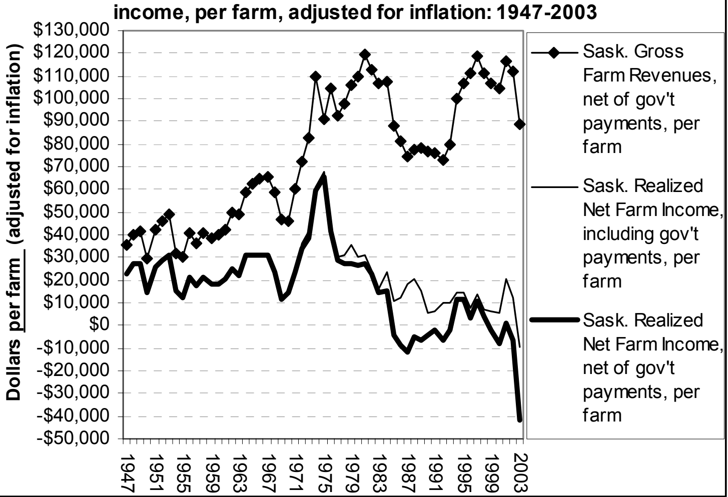


Figure C adds to the previous graphs a line that plots net income from the markets alone, with government payments subtracted. Saskatchewan net incomes from the markets alone fell into negative territory in the mid-1980s. While these market net incomes rose into positive territory with higher grain prices in the mid-1990s, they fell back below zero in 1999. And in 2003, net incomes from the markets alone plummeted to negative $41,770 per farm—by far the lowest level in Saskatchewan history. Even during the 1930s global economic collapse and dust bowl droughts, net incomes barely dropped into negative territory.

Figure C. Saskatchewan per-farm gross revenue and net income, per farm, adjusted for inflation: 1947-2003



The current farm income crisis includes the worst net farm incomes in Canadian history. Most farm families are being crushed under huge losses from the markets in most years—their living expenses coming from government payments, off-farm employment, debt, savings, and the sale of assets. Worse still, nearly every sector outside of our supply managements systems—nearly every sector focused on export production (see below)—is in crisis: table potatoes, hogs, cattle, other livestock, and grains and oilseeds. The current farm income crisis is not confined to one sector or one region; it is not the result of one year's drought or disease: the crisis is devastating producers of nearly every commodity and it is a national and world-wide phenomenon.

Saskatchewan net incomes from the markets alone fell into negative territory in the mid-1980s.

The Causes: Part 1

With simultaneous wrecks in many sectors—hogs, grain, cattle, other livestock, potatoes, etc.—government and corporate leaders are scrambling to point to causes that do not implicate them. Most have rushed to blame the historic 2003 net income crash on the rising dollar (all sectors); BSE (livestock); subsidies (grains and oilseeds); drought (crops), etc. These acts of God and acts of foreign governments conveniently let our corporate and government leaders off the hook. These explanations do not, however, begin to account for the current crisis.

Figure C shows that while farmers' gross revenues rose, their net incomes from the markets fell well into the negative territory. The growing distance between the top and bottom lines in figure C—the difference between gross and net—is equal to the amount of money that farmers pay for fertilizer, chemicals, seeds, veterinary drugs, machinery, twine, pickup trucks, loan interest, and other expenses.

What is supply management?

In Canada, production levels for milk, eggs, and poultry are matched to domestic consumption through quotas. Prices for these products are set, and farmers are paid, according to a formula based on farmers' costs of production. This system has several benefits:

· Reliable supplies of important and perishable commodities;
· Stable prices for farmers and consumers alike;
· Lower retail prices for many supply-managed commodities than for comparable items in the U.S; and
· Profitability for farmers.

While farmers who produce many commodities—grains, oilseeds, pigs, cattle, potatoes—have struggled with a deepening income crisis as the result of volatile and declining world prices and volatile and fragile export markets, Canadian farmers who produce supply-managed commodities have largely been spared from these crises.

If you make a list of the Canadian farm sectors most focused on export production and if you make a list of the sectors in crisis, you will have nearly the same lists.

Supply management provides a model for anyone who is seriously considering solutions to the farm income crisis.

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Table 1, below, includes revenue, expense, and income averages for various decades. The far right column is the most telling. The average Saskatchewan farm enjoyed an average net income from the markets alone of over $20,000 per year in the 1950s, nearly $25,000 in the 1960s, and over $35,000 in the 1970s. But those net incomes began to fall in the 1980s: averaging only about $7,000 per year in that decade. In the 1990s, a Saskatchewan farm averaged only about $2,400 per year in net income from the markets. And in the first 4 years of this decade (2000-2003), the average annual net income has been negative $13,833 per year. Even excluding 2003 and the devastating effects of BSE, the average per-farm net income from the markets alone has been negative $4,520 per year.

Table 1 clearly shows that Saskatchewan's farm crisis did not start with the droughts of this decade, the outbreak of BSE, or the increase in the value of our dollar (the decades in which our dollar was relatively high were good ones for farmers). The roots of the current income crisis stretch back into the mid-1980s when farmers' net income from the markets began to plummet. The droughts of this decade and the BSE crisis have certainly had their effects. But these calamities have not caused the farm income crisis; they have merely intensified a crisis that has been consuming farm families for 2 decades.

Table 1. Decade-average per-farm revenues, expenses, and net incomes from the market alone

	Per-farm gross revenues from the markets alone	Per-farm expenses	Per-farm net incomes from the markets alone
1950x average	$38,474	$17,960	$20,514
1960s average	$53,937	$29,475	$24,463
1970s average	$86,304	$50,361	$35,943
1980s average	$95,553	$88,465	$7,088
1990s average	$96,076	$93,618	$2,458
2000s average	$105,450	$119,283	-$13,833
2000s average (w/o 2003)	$111,136	$115,656	-$4,520

Table 1 also shows that in the 1950s and '60s farmers' expenses were such that the average farmer could keep, in the form of net income, about $1 for every $2 that he or she earned in revenues. In the 1970s, that farmer could keep about $1 for every $2.50 in revenues. In the 1980s, however, farmers managed to hold onto less than $1 in $10. In the 1990s, farmers could barely hang onto $1 in $40. And in this decade, farmers could not hang onto a penny: every dollar that farmers earned in revenues, and more besides, went out in expenses, leaving farmers with negative net incomes from the markets.

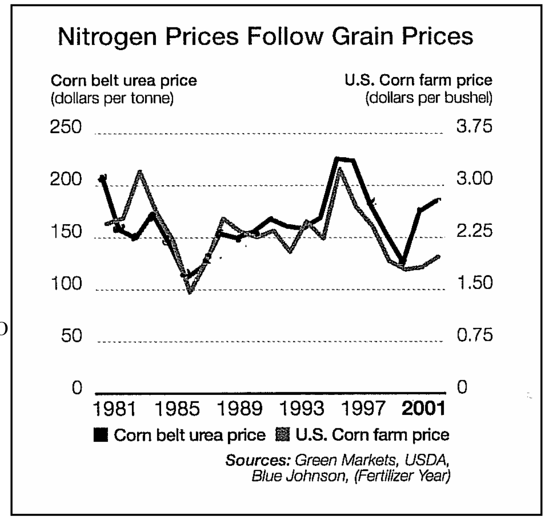
These acts of God and acts of foreign governments conveniently let our corporate and government leaders off the hook. These explanations do not, however, begin to account for the current crisis.

The Causes: Part 2

So where is all the money going? How come, a farm family with a gross income of $90,000 in the 1970s could earn a healthy net income of $30,000-$40,000 whereas today, that same gross translates into a large loss? It took somewhere around $50,000 in expenses to generate $90,000 in gross revenues in the 1970s, but it takes over $100,000 in expenses today. Why?

One part of the answer to these questions may be found in the graph at the right. The National Farmers Union (NFU) did not produce this graph; Agrium Corporation, a leading fertilizer manufacturer produced it (see their 2001 Annual Report). Agrium's title states that "Nitrogen Prices Follow Grain Prices," and the company helpfully graphs the correlation between the prices of U.S. corn and urea (nitrogen) fertilizer. (The NFU has produced similar graphs showing the correlation between Canadian wheat and nitrogen fertilizer prices.)

Agrium's graph clearly shows that fertilizer companies, like other input manufacturers, price according to what the market will bear. When grain prices rise, the transnational corporations that manufacture farm inputs raise their prices to snatch the extra dollars out of farmers' pockets. This behaviour is, of course, impossible in markets where any real level of competition exists. Agrium's predatory pricing strategy can only work in a market where mergers and takeovers have reduced the level of competition to extremely low levels.



Farmers' net incomes have declined remarkably when compared to the decades of the '40s through '70s. Those declines do <u>not</u> correlate well to changes in the value of the Canadian dollar, export numbers, production levels, world stocks/use ratios, droughts, diseases, subsidies, or any other of the other factors or measures trotted out to explain the current crisis. But the declines in net income <u>do</u> correlate very well to increases in the market power of the major agri-business transnationals—these corporations are much larger and face much less competition. Grain prices rose sharply in the mid-1970s and they rose similarly in the mid-1990s. In the '70s, farmers and communities prospered. In the '90s, net incomes were largely unchanged. The difference was that in the 1970s, agri-business corporations were not organized enough to take farmers' increased revenues away: in the 1990s, they were.

The second part of the explanation of the farm income crisis can be found in federal and provincial policies that accelerate the transfer of power and profit from farmers to agribusiness transnationals. Our governments pursued free trade, free market, and deregulation policies at the very same time that our corporate buyers and suppliers were busy merging to increase their power and eliminate their competition. While governments talked about free markets, farmers increasingly faced near monopolies.

Our governments took away our hog marketing boards, cut the Crow, ended the two-price wheat program, deregulated grain handling and transportation, turned our seed sector over to biotech giants, presided over the destruction of our co-ops, and tied their own hands with trade and investment agreements. If agribusiness corporations are taking our profits, our governments are accomplices.

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