

# *Analysis of attributes of* **INSOLVENT FARMERS** *in San Joaquin Valley study*

SYLVIA LANE • CHARLES V. MOORE

**T**HIS STUDY REPORTS some of the characteristics of individuals and agricultural firms associated with 24 cotton farms, who filed under Chapter 11 or other Chapters of the Bankruptcy Act in the period 1969 through 1970; and discusses the implications of these findings. When a petitioner (debtor) files under Chapter 11 of the Bankruptcy Act, he continues to operate the firm under a plan approved by the court. In approving the arrangement, the court assumes a reasonable probability that the petitioner can, with an extension of time for payment of unsecured debts, regain financial solvency. Under straight bankruptcy, the petitioner is asking for immediate relief from his debts. The number of bankruptcies in the San Joaquin Valley has recently increased. The fact that few nonfarm employment options are revealed in the study is of added concern.

Under Chapter 1, Section 1, Subsection (4) of the Federal Bankruptcy Act, farmers may not be adjudged involuntary bankrupts, and under other provi-

sions of this act no adjudication may be entered against them without their consent. Therefore, the entire sample for this study involved farmers voluntarily asking the Bankruptcy Court for relief from debts.

The sample was drawn from all farm operators in the Eastern California Court District, Fresno, California, who grew or produced cotton and filed petitions under the Bankruptcy Act in 1969 or 1970. All cases for which there were court records were included in the sample. Twenty-five of the petitioners were located, and these were interviewed in depth. One major creditor in each case was also interviewed.

## Study sample

The mean age of sample operators (47.5 years) was similar to the mean age of all operators in the area (50.3 years). The sample did not include operators from either extreme of the age distribution (table 1). It is noteworthy that no operator in the sample was over 65 years of age, whereas 13% of all farm operators were in this age group.

Due, in part, to the narrow range in the age distribution of the sample operators, more people were living on bankrupt or debtor farms than on all farms in the study area. There was an average of 3.79 persons per bankrupt or debtor farm compared with an average of 3.33 persons per farm in the six-county area, as reported in the 1964 Census of Agriculture. A total of 91 people lived on 24 farms, with six farms accounting for 24 people, and five accounting for 30 people.

Larger than average families were also associated with unsuccessful farm loans in a recent South Dakota study.

Insolvent farm operators tended to be better educated than their counterparts on all farms in California. About 13% of both the sample operators, and all California farm operators, had 16 or more years of education (table 2). However, in the 13- to 15-years-of-education group, 54% of the operators in the bankrupt and debtor sample reported having completed more than 12 years of schooling—in contrast to only 26% for all farm operators.

Long-term farm experience does not prevent financial insolvency. The study revealed that 11 out of the 24 sample farm operators (46%) had spent in excess of 25 years on their present farm, compared with only 15% for the entire state (table 3). It is interesting that almost 24% of all California farm operators had spent less than five years on their present farms, whereas only one of the insolvent operators in the sample was in this category. From this, it might be inferred that time lags exist between the occurrence of financial difficulty and the actual filing of bankruptcy.

Sixty-eight per cent of those sampled were part owners of the land they farmed, as opposed to only 24% of all farm operators in the area studied (table 4). Most of the farmers (64%) in the study area were full owners, as compared with only 12% in the sample. Surprisingly, 20% of the sample farm operators were full tenants as compared with 11% for the region.

TABLE 1. AGE OF FARM OPERATORS, COTTON PRODUCING AREA, SAN JOAQUIN VALLEY, CALIFORNIA, 1970

Age	Study sample:		Regional total*	
	No.	%	No.	%
Under 25	0	0	205	1
25-34	0	0	1,672	8
35-44	9	38	4,833	24
45-54	7	29	6,162	31
55-64	8	33	4,562	23
65, over	0	0	2,707	13
Total	24	100	20,141	100
Average/ years	47.5	...	50.3	...

\* Source: U. S. Census of Agriculture, 1964.

In this study, the insolvent cotton farmers from the East San Joaquin Valley were all in their middle years (35 to 64), but 64% were over 45 years of age. They had a larger number of dependents than average for farms in this area, and a higher level of education than the average farm operator in California. Also, on the average, they had spent more years in farming than had farmers in the state as a whole. Most were part-owners or tenants in an area in which 64 per cent of the farm operators owned their farms, but their farms were larger than the average farm in the study area. Once insolvent, very few of the "straight" bankrupts returned to farming as farm operators, and their bankruptcies had a marked impact on the flow of income in communities around which they centered.

On the average, farms in the sample were much larger than farms in the six-county area. Twenty-eight per cent of the farms in the sample were over 2,000 acres, compared with 7% of all farms in the region (table 5). In fact, 76% of the sample operators had farms in excess of 500 acres.

### Implications of study

Unemployment rates (table 6) indicate that alternative job opportunities for persons leaving farming in the San Joaquin Valley are relatively few. The unemployment rates in the study area are markedly higher than those for the state as a whole. Considering the age distribution of the sample of bankrupt farm operators and the length of time they had spent in farming, it seems reasonable to conclude that they would have difficulties in obtaining new employment, especially outside of agriculture. Fourteen per cent of 30 respondents to a follow-up employment questionnaire mailed in May 1971 were still unemployed five months after the last insolvencies occurred (table 7). Only 27% of the respondents had been reemployed as wage earners in agriculture. Of the 12 respondents who filed petitions in bankruptcy (rather than filing under Chapter 11 of the Bankruptcy Act), only two reported they were self-employed in agriculture. However, two others were employed outside of agriculture. The lack of retraining programs designed for those in agriculture added to their difficulties.

Sixty-two per cent of the farm operators interviewed were over 45 years old. None were under 35. Employment opportunities tend to grow fewer for those over 35, and decrease drastically for those over 45. The fact that the petitioners

under the Bankruptcy Act had a larger than average number of dependents worsened their economic plight. On the other hand, their higher level of education might tend to make the study sample members more adaptable, more open and sensitive to information concerning employment opportunities, and thus more capable of availing themselves of them. However, the fact that 88% of the sample had been in farming 10 years or more, would have tended to offset any propensity they might have to avail themselves of nonfarm employment opportunities. The relatively high number of dependents among the sample members would reinforce this tendency.

The impact of these bankruptcies on the communities surrounding the insolvent farms are primarily indicated by the total sums of the unpaid debts. Total debt for the 61 insolvent farms for which court records were available was \$32,644,838. Since the insolvent farms were centered around six communities, each community may have suffered an average potential loss of as much as approximately \$5,440,806. In all cases this was an appreciable portion of total community income. However, 56% of the cases filed petitions under Chapter 11; therefore, in time, some of their debts may have been paid. In all probability, this would not happen before the community had felt a strong impact from the reduced income flow.

Insolvent California cotton farm operators who leave managerial roles in farming with relatively few opportunities for nonfarm employment, pay a high price for their failure in the form of reduced incomes and loss of life savings. Communities also feel the impact of these losses in the form of uncollected accounts and, in turn, a reduction in income flows.

TABLE 2. COMPARISON OF EDUCATIONAL LEVEL OF FARM OPERATORS IN SAMPLE AND ALL CALIFORNIA FARMERS 1970

	Highest grade completed						Total
	0-7	8	9-11	12	13-15	16+	
Operators in sample (number)	2	1	1	7	10	3	24
Per cent	8.4	4.2	4.2	29.2	41.6	12.5	100.0
All Calif. (no.)	8,248	14,038	13,102	24,748	10,907	9,773	80,852
Per cent	10.2	17.4	16.2	30.6	13.5	12.1	100.0

TABLE 3. COMPARISON OF FARM OPERATORS BY YEARS-ON-FARM IN SAMPLE AND ALL CALIFORNIA FARMERS, 1970

	Years						
	Under 5	5-9	10-14	15-19	20-24	Over 25	Not reported
Sample (no.)	1	2	5	2	3	11	1
Per cent	4.0	8.0	20.0	8.0	12.0	44.0	4.0
Calif. (no.)	19,285	14,614	12,099	11,279	6,711	12,248	4,616
Per cent	23.8	18.1	15.0	13.9	8.3	15.1	5.7

*Sylvia Lane is Professor, Department of Agricultural Economics, University of California, Davis; Charles V. Moore is Agricultural Economist, Farm Production Economics Division, Economic Research Service, USDA, Davis.*

TABLE 4. COMPARISON OF TENURE OF FARM OPERATORS IN SAMPLE AND IN SAN JOAQUIN VALLEY AS A WHOLE, 1970

	Study sample		Region	
	No.	%	No.	%
Full owners	3	12	12,661	64
Part owners	17	68	4,890	25
Full tenants	5	20	2,122	11
Total	25	100	19,673	100

TABLE 5. DISTRIBUTION OF FARM SIZES (OVER 50 ACRES) IN SAMPLE AND IN SAN JOAQUIN VALLEY AS A WHOLE, 1970

Acres	Study sample		Region	
	No.	%	No.	%
50-99	1	4	3,158	32
100-179	1	4	2,152	22
180-219	2	8	593	6
220-259	0	0	413	4
260-499	2	8	1,362	14
500-999	6	24	950	10
1,000-1,999	6	24	550	5
2,000 or more	7	28	696	7
Total	25	100	9,874	100

TABLE 6. PER CENT UNEMPLOYMENT, SELECTED SAN JOAQUIN COUNTIES

Area	1960	1968	Jan.-June 1968	
			1968	1969
Fresno Area	7.0	6.2	7.8	2.0
Bakersfield Area	5.8	5.3	5.9	5.7
Merced County	7.5	8.3	10.2	10.6
Tulare County	7.4	6.4	7.7	5.7
State (unadjusted)	5.8	4.5	4.6	4.4

TABLE 7. EMPLOYMENT QUESTIONNAIRE RESPONSE, 1971

	Self-employed in agriculture	Employed in agriculture, wage earner	Employed outside agriculture	Part time/Unemployed
Chapter 11 petitions	11	1	1	2
Straight bankruptcy	2	7	2	0
Total	15*	8	3	2

\* 2 unidentified.