

Structural and Financial Characteristics of U.S. Farms: 2001 Family Farm Report

Introduction

Farms vary widely in size and other characteristics, ranging from very small retirement and residential farms to establishments with sales in the millions of dollars. This report provides detailed information about the structural and financial characteristics of the various types of family farms in the United States. The information presented here is not available from any other publication.

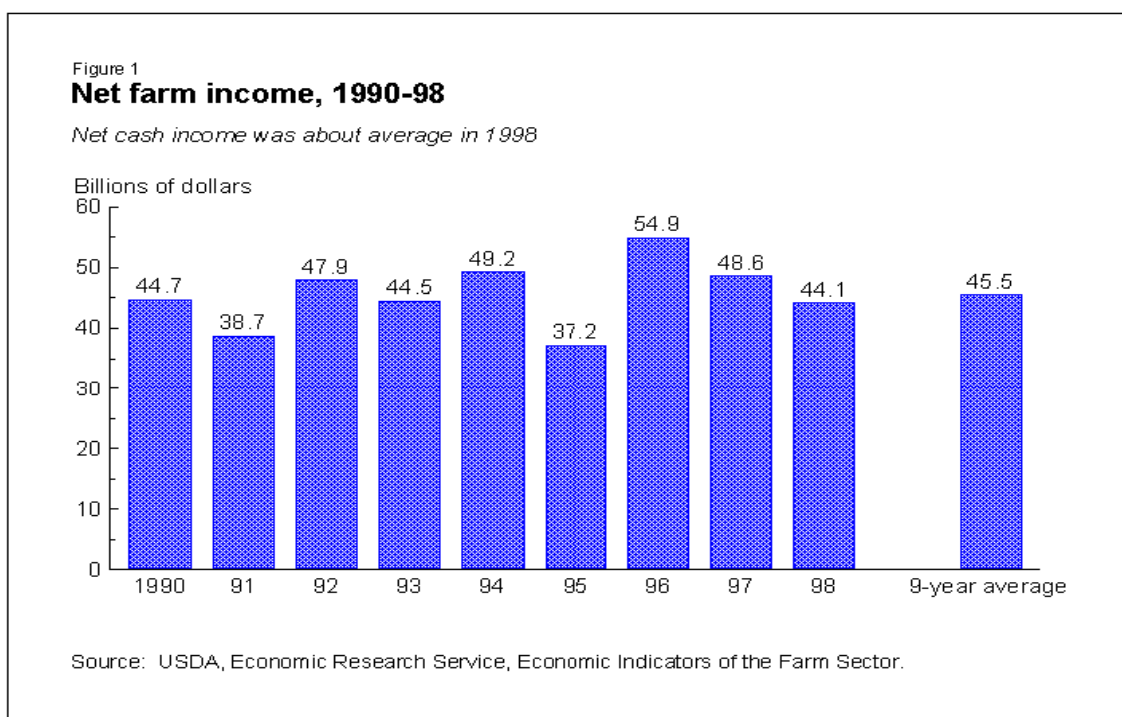
The Agricultural Resource Management Study (ARMS), an annual sample survey, is the main source of data for the report (see the appendix “Sources of Data”). Most of the ARMS data used in this report are from the 1998 survey. In particular, 1998 ARMS data are used to depict farm structure and financial position. The 1998 ARMS data were the most currently available when the report was being prepared. The 1998 ARMS data are supplemented with data from other survey years and other sources to address some of the more specialized topics raised in the report. One should keep in mind that 1998 was about average for farming, with respect to net farm income. Although sector net cash income was lower in 1998 than in 1997 and 1996, it was only slightly less than the average for 1990-98 (fig. 1).

Farm structure is generally defined broadly. For example, Boehlje (1992, p. 219) defines the structure of an industry or a sector—including the farm sector—along five dimensions:

- (1) the size distribution of firms; (2) the technology and production characteristics of those firms, including type of activity and level of specialization; (3) the characterization of the workforce (both managers/entrepreneurs and employees), including age, education, experience, skill level, part-time versus full-time status, etc.;
- (4) the resource ownership and financing pattern, including tenancy, leasing and debt/equity sources and relationships; (5) the inter- and intrasector linkages, including contract production and vertical and horizontal integration.

By this broad definition, each section of this report deals with one or more of the five dimensions of the structure of agriculture.

This report brings together information on farm businesses, farm operators, and farm household, in order to more fully describe current farm structure. Farming has become more concentrated as farm numbers declined and more complex as farm operators adjusted to changes in market conditions, government programs, and other economic factors. Thus, describing farming in the United States today requires more than a simple compilation of facts on farm numbers, farm sizes, and farm production. Because farming is both diverse and complex, national averages often mask the variations that are essential to understanding the major participants in agricultural production: farm businesses, farm operators, and farm operator households. Such understanding is essential to assess the economic health of the sector and estimate the effects of changes in government policies.



Classifying Diverse Farms

The farm typology developed by the Economic Research Service (ERS) in late 1997 and early 1998 categorizes farms into more homogeneous groups—based primarily on annual sales of the farms and the occupation of their operators—than classifications based on sales volume alone (see the box “[Farm Typology Group Definitions](#)”). This report uses the typology to examine differences in structural and financial characteristics among U.S. farms.

Compared with classification by sales alone, the ERS typology groups reflect operators’ expectations from farming, position in the life cycle, and dependence on agriculture. Using more homogeneous categories based on a few key characteristics can help decisionmakers to target policy measures appropriately, including policy measures that seek to support income, stabilize commodity supplies, and protect natural resources.

The typology uses the definition of “small farm” developed by the National Commission on Small Farms, which was instituted in 1997 by Secretary Glickman to examine issues facing small farms. The Commission used \$250,000 in gross sales as its cutoff between small and large farms in its report, *A Time to Act* (U.S. Dept. Agr., Nat’l. Comm. on Small Farms, 1998, p. 28), released in January 1998.

Farm Typology Group Definitions

Small Family Farms

(sales less than \$250,000)

- **Limited-resource farms.** Small farms with sales less than \$100,000, farm assets less than \$150,000, and total operator household income less than \$20,000. Operators may report any major occupation, except hired manager.
- **Retirement farms.** Small farms whose operators report they are retired.*
- **Residential/lifestyle farms.** Small farms whose operators report a major occupation other than farming.*
- **Farming-occupation farms.** Small farms whose operators report farming as their major occupation.*
 - **Low-sales farms.** Sales less than \$100,000.
 - **High-sales farms.** Sales between \$100,000 and \$249,999.

Other Farms

- **Large family farms.** Sales between \$250,000 and \$499,999.
- **Very large family farms.** Sales of \$500,000 or more.
- **Nonfamily farms.** Farms organized as nonfamily corporations or cooperatives, as well as farms operated by hired managers.



*Excludes limited-resource farms whose operators report this occupation.

The Commission—after much deliberation—set the cutoff high enough to include farm families of relatively modest income who may need or want to improve their net farm income.

The farm typology focuses on the “family farm,” defined here as any farm organized as a sole proprietorship, partnership, or family corporation. According to 1998 ARMS data, about 98 percent of U.S. farms are family farms. Family farms exclude farms organized as nonfamily corporations or cooperatives, as well as farms with hired managers. Family farms are closely held (legally controlled) by their operator and the operator’s household.¹ The operator is defined as the person who makes the day-to-day decisions on the farm. There is one operator per farm (see the appendix, “Sources of Data”).

Other definitions of the family farm exist, and a variety of definitions, implicit and explicit, have been used by Congress, researchers, and others (U.S. Dept. Agr., Econ. Res. Serv., 1999). These definitions are generally more restrictive than the one used in the farm typology, however. Some definitions exclude farms based on the amount of hired labor or total labor, the share of labor provided by the

¹The terms “household” and “family” are used interchangeably in this report, although the two terms are technically slightly different. For more information, see the appendix, “Sources of Data.”

family, contracting arrangements, or tenure, which tend to eliminate larger farms. Excluding such farms would make sense only if the focus is smaller family farms. Other definitions only include operations where the operator's main occupation is farming or where the farm provides at least half-time employment, which would tend to exclude smaller farms. The advantage of the typology is that it is inclusive, but allows one to focus on various groups of large and small farms when necessary.

The Typology Groups

The first group identified by the typology is **limited-resource farms**, or family farms with gross sales less than \$100,000, farm assets less than \$150,000, and household income less than \$20,000. This definition of limited-resource farmers differs slightly from the original definition devised by Perry and Ahearn (1993), who required family income to be less than the poverty level, rather than less than \$20,000. The present definition has the advantage of not requiring data on family size (number of people in the family), which is not collected some years by ARMS but is necessary to assign a poverty level to families. The current definition was used in an earlier analysis of risk management needs of low-income farmers (Dismukes and others, 1997, p. 8). Identifying limited-resource farms is critical, because agencies may need to develop special efforts to serve limited-resource farmers.

Unlike farmers in the other groups of small farms, limited-resource farmers are not restricted to one major occupation. Limited-resource farmers may report farming, a nonfarm occupation, or retirement as their major occupation. The limited-resource group identifies farmers with low sales, income, and assets, regardless of their major occupation.

The remaining small family farms are classified into one of three groups based on the major occupation of the operator—the occupation at which he or she spends more than 50 percent of his or her work time.

- **Retirement farms.** Small farms whose operators report they are retired. The operators may have had either a farm or nonfarm major occupation before retirement. However, they still are sufficiently engaged in farming to produce at least \$1,000 worth of farm products, the minimum necessary for an establishment to be classified as a farm, according to USDA's official definition of a farm.
- **Residential/lifestyle farms.** Small farms whose operators report they have a major occupation other than farming. Some operators in this group may view their farms strictly as a hobby that provides a farm lifestyle. For others, the farm provides a residence and may supplement their off-farm income. Some may hope to eventually farm full-time.
- **Farming-occupation farms.** Small farms whose operators report farming as their major occupation. Although the operator spends most of his or her time farming, the household may receive substantial income from off-farm work by other household members and from part-time off-farm work by the operator. Larger and smaller farms in this group differ in their characteristics, so this group is further divided into two subgroups based on gross sales:
 - **Low-sales farms.** Farming-occupation farms with sales less than \$100,000.
 - **High-sales farms.** Farming-occupation farms with sales between \$100,000 and \$249,999.

Three additional groups of farms were added to the typology to ensure that it covers all farms. **Large family farms** have sales between \$250,000 and \$499,999, and **very large family farms** have sales of \$500,000 or more. Finally, the **nonfamily farm** group includes farms organized as nonfamily corporations or cooperatives and farms with hired managers. Operators of large and very large family

farms may report farming, a nonfarm occupation, or retirement as their major occupation. Operators of nonfamily farms may also be hired managers.

Topics Covered by this Report

The remaining sections in this report present detailed information on farm structure and farm finances. Topics covered in each section are summarized below. Each presents information for farms classified by the farm typology.

Attributes of Small and Large Farms. This section covers some of the traditional structural characteristics of farms: size, specialization in production, land tenure, geographic location of production, and the attributes of farm operators. The structure of U.S. agriculture is clearer when farms are sorted into the homogeneous categories of the typology.

Business Organization and Arrangements of Farms. The next section explores the business organization of farms and how farms organize resources through leasing, contracting, and other business arrangements. How resources are controlled varies by the farm typology, but even small farms may have complex rental or contractual arrangements.

Contributions by Spouses of Farm Operators. Spouses make an important economic contribution to farm households through farm work, off-farm work, or both. The farm household is able to enjoy a higher level of income through off-farm work by the spouse alone or combined with off-farm work by the operator. While both operator and spouse typically work off the farm mostly for the money, the spouse is more likely to report other reasons, such as health insurance benefits, keeping up skills, or meeting people.

Female Farm Operators and Their Farms. This section compares the characteristics of female and male operators, their farms businesses, and their households. Women make up a small, but growing proportion of the Nation's farm operators. Farms operated by women are generally smaller, both in sales and acres, than male-operated farms.

Farm Business Financial Performance. The financial condition of farm operator households and the financial performance of farms they manage differ considerably. Generally, farms with sales less than \$100,000 generate losses, and do not cover the full economic costs of production. Households operating these farms necessarily rely heavily on off-farm income. Sources of credit also vary among the typology groups.

Farm Household Income and Wealth. This section examines sources of household income for households operating farms. Dependence on farming as a source of income varies from category to category in the typology. The situation is different for operator household wealth, however. Regardless of farm typology group, most operator household wealth is held as farm assets.

Government Payments and the Use of Selected Management Strategies. This section discusses changes made by the Federal Agriculture Improvement and Reform Act of 1996 (the Act) in Government payment programs. It then identifies which farms received government payments and

shows the contribution of these payments to farm income in 1998. The section also discusses changes in farmers' use of management strategies in response to the Act.

Federal Tax Policies Affecting Farmers. The most important Federal taxes for farmers are the Federal income tax, the self-employment tax, and estate and gift taxes. Although the Federal income tax imposes the largest tax burden on the broadest group of farmers, the relative importance of the various taxes differs with the size and other aspects of the farm business. This section discusses the most important features of Federal tax law and how they affect farms in the various typology groups.