

Appendix E: New Typology of Small Farms

In July 1997, Secretary of Agriculture Dan Glickman appointed a 30-member National Commission on Small Farms (the Commission) “to examine the status of small farms in the U.S., and to determine a course of action for USDA to recognize, respect, and respond to their needs” [16, p. 14]. In its January 1998 report, *A Time To Act*, the Commission classified farms with gross sales of less than \$250,000 as small farms, and suggested that USDA give special emphasis to small farms with the greatest need to improve their net farm incomes. Further, the Commission proposed eight policy goals, along with recommendations for achieving those goals, to guide farm policy decision-making into the next century.

The Commission acknowledged that its “description of small farms includes approximately 94 percent of all U.S. farms” [16, p. 28]. In explaining the \$250,000 cutoff, the Commission noted that even sales as high as \$250,000 were “barely sufficient to provide a net farm income comparable to the income of the average nonfarmer and farms up to that size are among those whose survival is most endangered” [16, p. 28].

Such a broad category--which includes nearly all U.S. farms--can be subdivided for policy discussions, based on farm and operator household characteristics. Our categorization focuses on ‘family farms,’ defined here as farms organized as sole proprietorships, partnerships, and family corporations. Nonfamily farms are those organized as nonfamily corporations or cooperatives, as well as farms with hired managers. Family farms are closely held (legally controlled) by the operator and the operator’s family, while operators of nonfamily farms have limited say over the distribution of their farms’ net income or equity. Family farms made up 98.5 percent of all U.S. farms in 1995, and produced about 85 percent of the total U.S. value of agricultural production (table E).

Small Family Farms

We delineate four groups of small family farms using household, farm business, and occupational characteristics. The four major groups are: (1) limited-resource farms, (2) retirement farms, (3) residential/lifestyle farms, and (4) primary occupation farms. First, we identify limited-resource farms based on characteristics of the operator household and the farm business. Then, we subdivide the remainder of small family farms based on the primary occupation of the operator (farming, retired, or ‘other occupation’). Farms with an operator whose primary occupation is farming are further subdivided by gross value of sales.

Limited-Resource Farms

Farms identified as limited-resource farms meet three criteria: (1) total operator household income under \$20,000, (2) total farm assets under \$150,000, and (3) gross sales under \$100,000. This definition is consistent with limited-resource definitions used by USDA’s Risk Management Agency and Natural Resources Conservation Service. Although the difficulties that limited-resource farms face are not unique to them, they are not as well positioned as other small family farms to overcome them in order to remain in farming.

In 1995, limited-resource farms averaged under \$10,000 in gross cash farm income on 132 acres operated. Forty percent specialized in beef, and another 16 percent specialized in other livestock. While 39 percent of operators of limited-resource farms reported farming as their primary occupation, the majority were evenly divided between “retired” and “something else.”

Because average off-farm income was near \$12,000, and limited-resource farms, on average, lost money, average total household income for limited-resource farms was \$8,937, one-fifth of the U.S. average household income and the lowest of all the small family farm subgroups. About 63 percent of limited-resource farms were located in the South.

Retirement Farms

Retirement farms are small farms with operators who reported “retired” as their primary occupation. About 13 percent of all farms were classified as retirement farms and they accounted for 1.4 percent of total U.S. production. Although retired operators continue to farm, they often scale back their work hours and their production. About one in five retired farm operators had also retired their land, and Conservation Reserve Program (CRP) payments were their operations’ sole source of gross farm income.

Gross cash farm income of retirement farms averaged \$14,531, and land operated averaged 174 acres, both well below the U.S. average. Income from government payments averaged 13 percent of gross cash farm income, making government payments more important to retirement farms than to any other small family farm category.

Three-fourths of retired operators were full-owners of the land they operated. About 26 percent of retirement farms had land enrolled in the CRP in 1995, accounting for 26 percent of all farms enrolled in CRP and 24 percent of all CRP land. Retirement farms were most likely to specialize in livestock production. (Note that most retirement farms in ‘other field crops’ were actually farms for which Conservation Reserve Program (CRP) payments were the sole source of gross farm income.) Average household income for retired operators was \$40,500, mostly from off-farm sources.

Residential/Lifestyle Farms

Operators of these farms reported a principal occupation other than “farming” or “retired.” For these operators, a farm lifestyle and the chance to build wealth through accumulation of farm assets may have been more important than agricultural production and the income that production generates. Residential farms accounted for 35 percent of all farms, but only 6 percent of production. Over half of these farms were livestock operations, primarily beef.

Like retirement farms, residential/lifestyle farms controlled a large share of land enrolled in the CRP. Residential/lifestyle farms enrolled in the CRP accounted for 28 percent of farms enrolled in CRP and 22 percent of all CRP land. Although 70 percent of residential/lifestyle farms had negative net cash farm income (cash expenses exceeded gross cash farm income), this group had the highest average household income (\$57,242) of all the small family farm categories because of high off-farm income.

Primary Occupation Farms

Operators of primary occupation farms reported farming as their major occupation. Because of the substantial variation among farms in this group, we divided primary occupation farms into two more homogeneous subgroups, low-sales farms (gross sales under \$100,000) and high-sales farms (gross sales \$100,000-\$249,999). A major difference between low-sales and high-sales farms was dependence on off-farm income, 103 percent for low-sales farms (because average earnings from farming activities was negative) compared with 54 percent for high-sales farms. Also, operator age averaged 58 years for low-sales farms, compared with 47 years for high-sales farms.

Low-Sales Farms. Low-sales farms averaged substantially higher sales and acreage than limited-resource, retirement, and residential/lifestyle farms. Only 28 percent of these farms had sales less than \$10,000, compared with 69 to 76 percent of the three other groups. Although more than half generated positive net cash farm income, average total income was lower for households operating low-sales farms than for households operating retirement or residential/lifestyle farms, because off-farm income was too low to offset low or negative earnings from farming activities. Thus, average household income for the low-sales group was only about 68 percent of the average U.S. household.

High-Sales Farms. Although primary occupation farms with high sales made up 9 percent of all farms, they accounted for about 20 percent of the value of agricultural production. Compared with other groups of small family farms, high-sales farms had much higher gross cash farm income (\$157,500) and more farms with positive net cash farm income (84 percent). Thus, this was the only small farm group in which average earnings from farming activities provided a substantial share of average total household income (46 percent). Nevertheless, total household income for operator households of high-sales farms averaged 10 percent less than the average for all U.S. households.

Unlike other groups of small family farms, cash grain and dairy were the most common commodity specializations (37 percent and 23 percent) in the high-sales group, and more than 80 percent rented at least part of the land they farmed. About 61 percent of high-sales farms were located in the Corn Belt, Great Plains, and Lake States.

Implications

This new typology shows that while there is some commonality among small family farms, there is also variation. Thus, some policy needs may be the same across subgroups of small family farms, and some may differ. For example, because operator households in all categories rely heavily on off-farm income, the health of the nonfarm economy is an important factor to small family farm viability. Therefore, policies and programs aimed at the general economy, such as those affecting employment levels or interest rates, may be more important than farm policy to the economic well-being of many small farm households. In like manner, nonfarm programs, such as Social Security and Medicare, which address the needs of the elderly, may be critical to the segment of small farm operators who are older and/or retired.

Some farm programs affect small farms disproportionately, and changes in such programs can be evaluated in light of differential impacts on groups of farms. For example, CRP payments totaled more than \$1.7 billion in FY1994, and more than 85 percent of acres enrolled in the CRP in 1995 were controlled by small family farm operators.

Program initiatives aimed at helping farm operators improve their net farm income would be especially appropriate for small farm operators. These could include extension education structured to address small farm issues, innovative marketing programs, and credit assistance. For example, direct farm marketing holds promise for some farm entrepreneurs as a way to bolster farm income, especially for farms located near urban areas. By selling directly to consumers, farmers may be able to get premium prices for their products but also retain a larger share of consumers' food expenditures.

Table E--Characteristics of small family farms and their operators: a new typology based on the National Commission on Small Farms definition, 1995

Item	Units	Small family farms ¹					Large family farms ¹	Nonfamily farms ²	All farms
		Limited-resource ³	Retirement ⁴	Residential/lifestyle ⁴	Primary occupation ⁴				
					Low-sales (less than \$100,000)	High-sales (\$100,000 to \$249,999)			
Farms	Number	249,624	257,994	716,332	503,578	194,864	114,417	31,190	2,068,000
Share of U.S. farms	Percent	12.1	12.5	34.6	24.4	9.4	5.5	1.5	100.0
Share of U.S. production	do.	1.5	1.4	6.0	11.3	19.7	45.4	14.5	100.0
Share of total acres operated	do.	3.7	5.0	13.5	29.0	20.4	20.8	* 7.6	100.0
Land operated per farm	Acres	132	174	169	518	939	1,633	* 2,188	434
Share of farms with sales under \$10,000	Percent	72.7	75.8	68.9	27.5	na	na	* 34.4	49.3
Farms enrolled in CRP	Number	20,564	67,733	71,565	54,527	20,310	13,444	8,935	257,077
Share of all CRP farms	Percent	* 8.0	26.4	27.8	21.2	7.9	5.2	** 3.5	100.0
Share of total CRP acres	do.	* 4.9	23.5	21.5	25.5	11.8	8.3	** 4.5	100.0
Mean gross cash farm income	\$/farm	9,630	14,531	14,409	38,155	157,476	597,986	549,834	73,474
Livestock sales	do.	4,101	4,827	5,322	14,645	64,287	239,364	* 203,159	28,828
Crop sales	do.	3,912	3,304	5,690	14,494	68,731	288,041	265,497	32,802
Government payments	do.	661	1,889	984	1,953	7,305	14,826	4,949	2,715
Other farm income	do.	957	* 4,512	2,413	7,243	17,153	55,756	* 76,229	9,129
Share of farms with positive net cash income	Percent	37.1	46.1	30.0	55.9	83.8	88.4	68.9	48.1
Farms by majority enterprise type: ⁵									
Cash grain ⁶	do.	12.6	7.9	15.0	22.9	37.3	32.0	* 17.7	18.8
Other field crops ⁷	do.	18.8	29.3	17.8	10.7	7.6	10.6	** 29.8	16.4
High value crops ⁸	do.	* 4.6	7.5	4.0	10.3	6.6	10.7	26.3	7.0
Beef	do.	39.6	39.0	39.3	34.2	10.2	10.8	17.3	33.4
Hogs	do.	d	d	* 5.2	1.8	5.1	6.8	d	4.0
Dairy	do.	d	d	d	6.9	23.1	15.4	d	5.2
Other livestock ⁹	do.	* 16.3	14.4	18.5	13.2	10.2	13.7	* 4.8	15.2
Farms by tenure:									
Full owner	do.	56.4	77.0	64.1	52.2	17.3	18.9	* 65.5	55.0
Part owner	do.	24.5	20.1	30.3	41.6	64.5	63.0	23.5	36.0
Tenant	do.	19.1	d	5.6	6.2	18.2	18.1	* 11.0	9.0
Average operator age	Years	56	68	48	58	47	49	49	54
Operator primary occupation:									
Farming	Percent	38.8	na	na	100.0	100.0	94.7	76.1	44.9
Something else	do.	30.7	na	100.0	na	na	d	d	38.9
Retired	do.	30.5	100.0	na	na	na	d	d	16.2
Total household income	\$/household	8,937	40,454	57,242	30,478	40,254	118,450	na	44,392
Share from off-farm sources ¹⁰	Percent	134.2	93.8	108.5	103.3	54.0	25.4	na	89.4
Percent of U.S. average household income ¹¹	do.	19.9	90.0	127.4	67.8	89.6	263.6	na	89.8
Household net worth	\$/household	80,693	400,915	283,835	423,010	514,122	925,782	na	366,271

¹ Family farms are farms organized as sole proprietorships, partnerships, or family corporations. Small family farms include those with gross sales under \$250,000, while large family farms include those with gross sales of \$250,000 or more.

² Nonfamily farms are farms organized as nonfamily corporations or as cooperatives, as well as farms operated by hired managers.

- ³ Limited-resource farms meet three conditions: operator household income under \$20,000, farm assets under \$150,000, and gross sales under \$100,000.
- ⁴ Small family farms other than limited-resource farms are classified according to the major occupation of their operators. Operators of retirement farms are retired. Operators of residential/lifestyle farms report a nonfarm occupation. Operators of primary occupation farms report farming as their major occupation. Primary occupation farms are further subdivided by gross sales.
- ⁵ The commodity or commodity group that accounts for at least 50 percent of a farm's gross value of production.
- ⁶ Includes wheat, corn, soybeans, grain sorghum, rice and 'other grains' majority enterprise types.
- ⁷ Includes tobacco, cotton, peanuts, and 'other field crops' majority enterprise types. The category 'other field crops' includes farms with Conservation Reserve Program (CRP) payments the sole source of gross farm income.
- ⁸ Includes fruit/tree nuts, vegetables, and nursery/greenhouse majority enterprise types.
- ⁹ Includes poultry and 'other livestock' majority enterprise types.
- ¹⁰ Income from off-farm sources can be more than 100 percent of total household income if earnings from farming activities is negative.
- ¹¹ Average farm household income divided by U.S. average household income (\$44,938).
- * = The relative standard error (RSE) of the estimate exceeds 25 percent, but is not more than 50 percent. The RSE provides a means of evaluating the survey results. A smaller RSE indicates greater reliability of the data. Estimates with RSE's of 25 percent or less are not marked.
- ** = The relative standard error of the estimate exceeds 50 percent, but is no more than 75 percent.
- d = Data withheld to avoid disclosure.
- na = Not applicable.
- Source: USDA, Economic Research Service, 1995 Agricultural Resource Management Study for farm operator and farm household data. Current Population Survey (CPS) for U.S. average household income.