Abstract

Family 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. The farm typology developed by the Economic Research Service (ERS) categorizes farms into groups based primarily on occupation of the operator and sales class of the farm. The typology groups reflect operators’ expectations from farming, position in the life cycle, and dependence on agriculture. The groups differ in their importance to the farm sector, product specialization, program participation, and dependence on farm income. These (and other) differences are discussed in this report.

Keywords: Agricultural Resource Management Study (ARMS), family farms, farm businesses, farm financial situation, farm operator household income, farm operators, farm structure, farm typology, female farm operators, government payments, spouses of farm operators, taxes.

Contributors

Author: Sections written:

Robert A. Hoppe Introduction, Attributes of Small and Large Farms, and Farm Household Income and Wealth
James Johnson and Janet E. Perry Business Organization and Arrangements of Farms
Penni Korb Contributions by Spouses of Farm Operators
Judith E. Sommer Female Farm Operators and Their Farms
James T. Ryan Farm Business Financial Performance
Robert C. Green Government Payments and Use of Selected Management Strategies
Ron Durst and James Monke Federal Tax Policies Affecting Farmers

The authors acknowledge the contributions of many individuals, including David Banker, Joy L. Harwood, Patrick Sullivan, Meredith Soule, Roger Strickland, and Keith Wiebe for their comments as reviewers. Special thanks also go to Nora Brooks, Shashunga Clayton, Adrie, S. Custer, and Brenda A. Powell for editing assistance. Finally, the authors acknowledge, Agnes T. Prentice for her help with graphics and layout of the report and Victor B. Phillips, Jr., for the cover design.
## Contents

### Summary
- Status of the Family Farm .............................................................. iv
- The Importance of Small Family Farms ............................................. v
- The Federal Role ........................................................................... vi
- Business Arrangements ................................................................... vi
- Women in Agriculture ..................................................................... vi

### Introduction
- Classifying Diverse Farms ............................................................ 1
- The Typology Groups ..................................................................... 4
- Topics Covered by this Report ...................................................... 5

### Attributes of Small and Large Farms
- Shares of Farms, Production, and Assets ........................................ 7
- Sales Class and Acreage ................................................................. 9
- Tenure .......................................................................................... 11
- Farm Specialization and Diversification .......................................... 11
- Operator Characteristics ............................................................... 13
- Operators’ Management Strategies .............................................. 15
- Location of Farms .......................................................................... 15
- Summary ..................................................................................... 20

### Business Organization and Arrangements of Farms
- Business Organization .................................................................... 21
- Business Arrangements .................................................................. 24
- Summary ..................................................................................... 26

### Contributions by Spouses of Farm Operators
- Onfarm Work .......................................................... 27
- Onfarm Wages .............................................................................. 28
- Spouse Involvement in Farm Decisionmaking ...................................... 30
- Off-Farm Work .............................................................................. 32
- Off-Farm Wages .............................................................................. 33
- Reasons for Working Off the Farm .................................................. 35
- How the Money Was Used .............................................................. 36
- Summary ..................................................................................... 37

### Female Farm Operators and Their Farms
- Farm Income, Sales, and Contracts ............................................... 38
- Sources of Gross Cash Income and Financial Position ....................... 42
- Business Organization, Tenure, and Program Participation .................. 44
- Operator Characteristics ............................................................... 46
- Operator Household Income .......................................................... 46
- Farm Typology .............................................................................. 46
Summary ..................................................................  50

Farm Business Financial Performance ................................................  50
  Financial Position ..........................................................................  50
  Standard Financial Performance Measures ..................................  52
  Lenders Serving the Farm Typology Groups ..................................  55
  Debt Repayment Capacity ..........................................................  55
  Summary .....................................................................................  57

Farm Household Income and Wealth .............................................  59
  Level and Sources of Income .....................................................  62
  The Farm’s Other Contributions .................................................  64
  Summary .....................................................................................  66

Government Payments and Use of Selected Management Strategies ....  68
  Federal Agriculture Improvement and Reform Act of 1996 ..........  68
  Government Program Payments Available in 1998 .....................  69
  Farms Receiving Government Payments ....................................  70
  Payments Farmers Receive ........................................................  72
  Farmers’ Use of Management Strategies ....................................  72
  Summary .....................................................................................  76

Federal Tax Policies Affecting Farmers ..........................................  76
  The Federal Income Tax and Self-Employment Tax .....................  77
  Federal Estate and Gift Taxation ..................................................  82
  Summary .....................................................................................  85

References ..................................................................................  86

Appendix: Sources of Data ............................................................. 89

Appendix Tables: Government Payments by Typology, Specialization, and Region ........  91
Summary

This report uses the farm typology developed by the Economic Research Service (ERS) in late 1997 and early 1998 to examine farm structure in the United States. (See the box, “Farm Typology Group Definitions.”) A farm classification system is necessary because farms are diverse. Farms differ in their goals, strategies to meet these goals, the use and control of their resources, and the economic results of their farm and off-farm activities. The typology divides farms into more homogeneous groups to aid in policy discussions. Information from the report is summarized below.

Status of the Family Farm

More than 60 percent of U.S. farms ended 1998 with a profit. For the most part, large and very large family farms were viable economic businesses. As a group, they tended to have economic cost/output ratios less than one, meaning they generated farm profits that could be used to retire debt, expand farm or nonfarm businesses, or support family living expenditures. In addition to being profitable, large and very large family farms produced 53 percent of the value of agricultural production in 1998 (see graph).

Small farms were less viable businesses. Most small farm typology groups did not report adequate income to cover expenses in 1998. They subsidized the costs of their farming activities with income from off-farm sources. Like their nonfarm counterparts, a large share of farm households are dual
Farm Typology Group Definitions

<table>
<thead>
<tr>
<th>Small Family Farms</th>
<th>Other Farms</th>
</tr>
</thead>
<tbody>
<tr>
<td>(sales less than $250,000)</td>
<td></td>
</tr>
<tr>
<td>• <strong>Limited-resource farms</strong>. 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.</td>
<td></td>
</tr>
<tr>
<td>• <strong>Retirement farms</strong>. Small farms whose operators report they are retired.*</td>
<td></td>
</tr>
<tr>
<td>• <strong>Residential/lifestyle farms</strong>. Small farms whose operators report a major occupation other than farming.*</td>
<td></td>
</tr>
<tr>
<td>• <strong>Farming-occupation farms</strong>. Small farms whose operators report farming as their major occupation.*</td>
<td></td>
</tr>
<tr>
<td>• <strong>Low-sales farms</strong>. Sales less than $100,000.</td>
<td></td>
</tr>
<tr>
<td>• <strong>High-sales farms</strong>. Sales between $100,000 and $249,999.</td>
<td></td>
</tr>
<tr>
<td>• <strong>Large family farms</strong>. Sales between $250,000 and $499,999.</td>
<td></td>
</tr>
<tr>
<td>• <strong>Very large family farms</strong>. Sales of $500,000 or more.</td>
<td></td>
</tr>
<tr>
<td>• <strong>Nonfamily farms</strong>. Farms organized as nonfamily corporations or cooperatives, as well as farms operated by hired managers.</td>
<td></td>
</tr>
</tbody>
</table>

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

The Importance of Small Family Farms

Although small family farms are often unprofitable, they still are important to U.S. agriculture. They accounted for only 33 percent of the value of total agricultural production in 1998, but they produced larger shares of particular commodities: 62 percent for hay, 54 percent for tobacco, 49 percent for soybeans, 47 percent for wheat, 47 percent for corn, and 40 percent for beef.

Because of their sheer numbers (91 percent of all farms) they also accounted for a large share of assets owned by farms (69 percent) including land (68 percent). As custodians and managers of the bulk of farm assets, small farms play a major role in natural resource and environmental policy. Retirement farms alone accounted for 29 percent of the land in the Conservation Reserve Program (CRP) in 1998.

career. In addition to working on their farms, the operator, the spouse, or both may have worked off the farm. Off-farm work is not entirely a recent development, since one-fourth to one-third of farm operators worked off-farm in the 1930's and 1940's.
The Federal Role

The Federal Government affects the status of family farms through taxes and farm program payments. There are several provisions in the tax codes that are specifically designed to lower the income taxes that farm operators pay. Recent changes to Federal estate tax provisions also make it easier to pass farms on to the next generation by exempting most small family farms from payment of the tax. On the other hand, the ability to transfer larger farms, combined with preferential treatment for farmland and other business assets, could help to accelerate the trend to fewer and larger farms.

Large and very large family farms received a disproportionate share of government payments relative to their share of farms in 1998. These farms had high participation rates and were likely to be involved in traditional program commodities. Program payments—particularly CRP payments—were also important to retirement farms. About 13 percent of the gross cash income for retirement farms came from government payments, compared with only 5 percent for all farms. Despite the public discourse about farm programs, not all farms are eligible for program payments. In fact, only 36 percent of all farms received government payments in 1998.

Business Arrangements

The share of farms and agricultural sales accounted for by nonfamily corporations has been stable for decades. The form of business organization (proprietorship, partnership, or corporation) alone does not capture the widespread use of various formal and informal business arrangements to gain access to technology, markets, equity capital, or other inputs. Commonly used arrangements include marketing and production contracts, joint ventures, strategic alliances, leases, and a variety of agreements and licenses. Even sole proprietorships can have these business linkages. For example, 34 percent of high-sales farms had production or marketing contracts in 1998, even though 85 percent of those farms were organized as sole proprietorships.

Women in Agriculture

Women operate a growing share of farms, increasing from 5 percent of farmers in 1978 to 9 percent by 1997. Although women manage all types and sizes of farms, they most commonly manage small farms and specialize in livestock production. The average income of female-operator households is lower than that of male-operator households, with the difference resulting more from low farm earnings than from low off-farm income. But, the average household income of female-operator households is higher than that of all U.S. female-headed households or females living alone.

Women also contribute to farm businesses and households as spouses of farm operators, through a variety of farm and off-farm activities. In addition to helping with day-to-day operations, spouses join in management decisions related to longer term financial commitments. Spouses also work off-farm (especially on small farms) primarily to generate extra income, but also to get benefits such as health insurance.