

Structural and Financial Characteristics of U.S. Farms

Introduction

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U.S. 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 *2004 Family Farm Report* presents comprehensive data on the Nation's diverse family (and nonfamily) farms. It also examines important trends currently affecting family farms.

As in recent years, the Agricultural Resource Management Survey (ARMS)—an annual sample survey—is the main source of data in the *Family Farm Report*. The ARMS is designed and conducted each year by the Economic Research Service (ERS) and the National Agricultural Statistics Service (NASS), both agencies of the U.S. Department of Agriculture. Data from the various censuses of agriculture are also used. The census is particularly useful in following trends over long periods of time. For more information, see Appendix I, “Sources of Data.”

This report uses the farm typology developed by the Economic Research Service (ERS) to examine farm structure in the United States (see 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 farm typology categorizes farms into more homogeneous groups—based primarily on annual sales of the farms and the major occupation of their operators—than classifications based on sales volume alone.

Classifying Diverse Farms

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 decision-makers better target policy measures, including those that are designed 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 the Secretary of Agriculture 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), released in January 1998. 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.

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 family 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 Family Farms

Large family farms. Sales between \$250,000 and \$499,999.

Very large family farms. Sales of \$500,000 or more.

Nonfamily farms

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

*See Appendix II, "Measuring Farm Operator Household Income."

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

The farm typology focuses on the "family farm," defined here as any farm organized as a sole proprietorship, partnership, or family corporation. According to 2001 ARMS data, about 97 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; only one individual can be defined as the operator of a given farm (see Appendix I, "Sources of Data").

Other definitions of the family farm exist (see Appendix III, "Defining Family Farms"). 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 family, contracting arrangements, or tenure, which tend to eliminate larger farms. Excluding such farms would make sense only if the

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

focus is smaller family farms. Other definitions include only farms 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 ERS typology is that it is inclusive, but allows one to focus on various groups of large and small farms when necessary.

Farm Typology Groups

The first group identified by the typology is **limited-resource farms**², or family farms with gross sales less than \$100,000, farm assets less than \$150,000, and household income (see Appendix II, “Measuring Farm Operator Household Income”) less than \$20,000. Identifying limited-resource farms is important, because policymakers have developed special programs to serve farms in that category.

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 of farm products, the minimum necessary for an establishment to be classified as a farm according to USDA's official definition.
- **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 as a way to enjoy 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

² In 2004, the current limited-resource farm definition was replaced with a new definition based on low household income persisting for 2 years and low gross sales of agricultural products. The household income data necessary for this definition were collected for the first time in the 2003 ARMS.

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 chapters in this report present comprehensive data on family and nonfamily farms, and information on important selected trends in family farms.

Chapter 1: Large and Small Farms: Trends and Characteristics. This chapter presents basic information on the structure of U.S. farms, using the ERS farm typology to illustrate how output, assets, and government payments are distributed across different farm types. Even though a wide variety of small farms continue to operate, production is shifting to large farms.

Chapter 2: Farm Household Income, Farm Structure, and Off-Farm Work. Off-farm income accounts for a growing share of farm household income. This chapter summarizes how different types of farm households include off-farm income among their income generating activities and outlines possible sources of growth in off-farm income among U.S. farms.

Chapter 3: Characteristics of Top-Performing Farms. Although large farms account for growing shares of farm output, and although small farms report poor financial performance on average, some small farms appear to be viable small-scale commercial enterprises. This chapter summarizes the range of financial performance measures among different farm types, and identifies the factors associated with high-performing farms.

Chapter 4: Farm Size, Farm Performance, and Off-Farm Work. One reason why large farms, on average, realize better financial returns than small farms is that farming technology allows them to realize lower costs through economies of scale. Scale economies may become less relevant, however, when the farm household is treated as an entity that combines farm output and off-farm work. This chapter examines the extent of scale economies and technical inefficiency on farms and farm households in the 10 major corn/soybean-producing States.

Chapter 5: Agricultural Use of Production and Marketing Contracts. Important changes are occurring in how farm products are sold, with a shift toward greater use of contracts. The use of contracts is associated with farm size (large farms use contracts much more than other farms), and can expand rapidly to cover additional commodities, as it has with hogs and tobacco in recent years.

Chapter 6: Women Farmers in Transition. From 1978 to 1997, the number of women-operated farms increased by 58 percent while overall numbers declined by 8 percent. Once primarily focused on beef cattle, women farmers have diversified in the last 20 years to specialize in horses, aquaculture, and fur-bearing animals. This chapter reports on trends in and characteristics of farms operated by women.