Structural and Financial Characteristics of U.S. Farms: 2001 Family Farm Report. By Robert A. Hoppe, editor. Resource Economics Division, Economic Research Service, U.S. Department of Agriculture. Agriculture Information Bulletin No. 768

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.

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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.

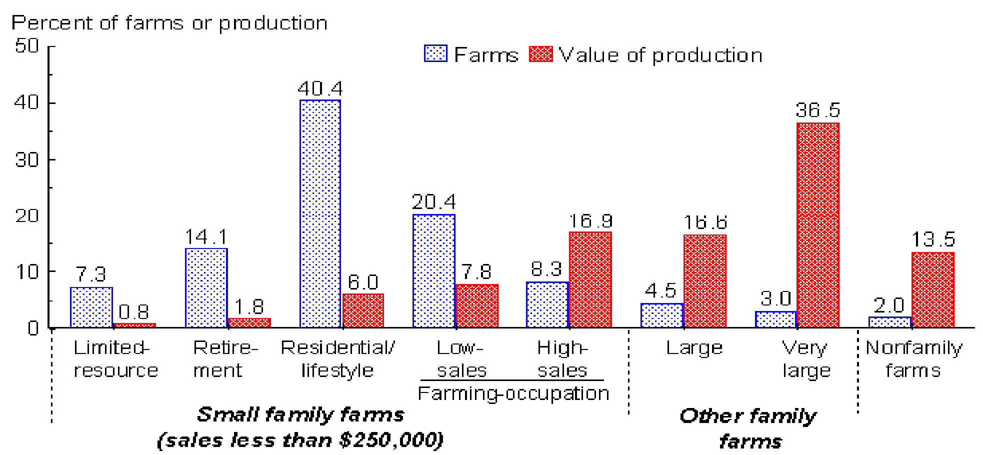
Status of the Family Farm

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

Share of farms and value of production by farm typology group, 1998

Large and very large family farms account for 53 percent of the value of production



Source: USDA, Economic Research Service, 1998 Agricultural Resource Management Study, version 1.

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.

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 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.

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.