Summary

Farms in the U.S. are extraordinarily diverse, ranging from very small retirement and residential/lifestyle farms to establishments with sales in the millions of dollars. Farming continues to be a distinctive industry in part because most production, even among very large farms, is carried out on family-operated farms whose operators often balance farm and off-farm employment and investment decisions. The organization of farming affects the efficiency and competitiveness of the farm sector, the well-being of farm households, the design and impact of public policies, and the nature of rural areas.

Agricultural policy analyses require an accurate source of basic information on how farming in the United States is organized. Analysts need to know how many farms there are, and of what sizes; the degree to which farms specialize in certain commodity combinations; the importance of families in farm operation and land ownership; the commercial methods that farmers are using to obtain inputs and sell farm products; and the sources of income received by farm households. This report provides current information and explores trends in the organization of farming.

Most farms in the U.S. are family farms (97 percent in 2001). Family farms are defined as farm operations organized as proprietorships, partnerships, or family corporations that are not run by hired managers. Even the largest farms tend to be family farms. For example, 86 percent of the farms with sales of $1 million or more in 2001 were family farms. Large family farms are often organized as family corporations, and these account for a growing share of farm sales. The share of farms and sales accounted for by nonfamily corporations is small and has been relatively stable since 1978.

Small family farms (sales less than $250,000) accounted for 90 percent of the farms in the U.S. but produced a modest share (28 percent) of farm output in 2001. Large (sales of $250,000 to $499,999) and very large family farms (sales of $500,000 or more) accounted for only 7 percent of farms but 58 percent of the value of production in 2001. Nonfamily farms accounted for another 3 percent of farms and 14 percent of the value of production.

Small farms made higher proportionate contributions to the production of specific commodities, including oats, tobacco, hay, wheat, soybeans, corn and beef cattle. Small farms also held about 68 percent of all farm assets, including 60 percent of the land owned by farms. As custodians of the bulk of farm assets—including land—small farms have a large role in natural resource and environmental policy.

Census of agriculture data show that the number of large farms (sales of $250,000 or more after adjusting for price changes) increased from 5 percent of all farms in 1987 to 8 percent of all farms in 1997. The share of sales attributed to large farms also increased significantly, from 51 percent in 1982 to 72 percent in 1997. The largest share increases occurred in farms with sales of $1 million or more. These farms accounted for about 21 percent of agricultural sales in 1997, compared with about 12 percent in 1982.

Farm program payments go to different types of farmers, depending on the program. In 2001, three-fourths of commodity-related payments went to high-sales small farms (sales of $100,000 to $250,000), large family farms, and very large family farms. In contrast, over 50 percent of payments from the Conservation Reserve and Wetlands Reserve Programs went to retirement and residential/lifestyle farms.

In general, farm households are not a low-income group. Farm household income has been at or above the average for all U.S. households in recent years but varies substantially across households. Household income averaged $64,500 for farm operators in 2001, 11 percent higher than the average for all U.S. households. Operators of residential/lifestyle farms, large family farms, and very large family farms had average incomes well above the average for all U.S. households. Operators in the limited-resource, retirement, and low-sales groups had average incomes that were below the national average.

Farm households received most of their income (91 percent) from off-farm sources. The importance of off-farm income varies widely among farm operator households. Residential/lifestyle farms account for nearly half of all U.S. farms, and they dominate average income measures because of their number and high income from off-farm work. At the other extreme, another major group, very large family farms, specializes in farm activities and receives little or no income from off-farm employment.

Contracts have governed much of the production and marketing of some commodities—like broilers and processing vegetables—since the 1950s. Over the past 40 years, the overall growth in contract-governed production has been slow and steady, reaching 36 percent of all agricultural production in 2001. However, rapid changes in market organization can and do occur for individual commodities. Contracts covered two-thirds of hog production in 2001, up from one-third just 5 years before. Virtually nonexistent in tobacco marketing in 1999, contracts covered half of production in 2001.

While the overall number of farms dropped by 8 percent from 1978 to 1997, the number of farms operated primarily by women rose from 5 percent of all farms in 1978 to 9 percent in 1997. Nearly half of that increase was due to growth in animal specialty farms and general livestock farms. Once primarily focused on beef cattle, women farmers have diversified in the last 20 years to specialize in other kinds of livestock such as horses, aquaculture, and fur-bearing animals.

The report relies extensively on data from the Agricultural Resource Management Survey (ARMS), its predecessor—the Farm Costs and Returns Survey, and the census of agriculture. The ARMS collects financial and operational data on U.S. farm businesses and information about farm operators and their households. 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.