

Sources and Levels of Operator Household Income

Given their negative operating profit margins and low net farm income—on average—how do so many small farms continue to exist? Households operating small farms typically receive substantial off-farm income. Average off-farm income in 2004 ranged from \$13,600 for limited-resource households to \$96,900 for households operating residential/lifestyle farms (table 7). Most off-farm income is from earned sources, either a wage-and-salary job or self-employment. However, households operating limited-resource or retirement farms receive well over half their off-farm income from unearned sources—such as Social Security, pensions, dividends, interest, and rent—reflecting the advanced age of operators on those farms. (See “Appendix I: Measuring Operator Household Income and Net Worth” for information on how operator household income is defined.)

Off-Farm Work

Participation in off-farm work varies by farm type. At one extreme, neither the operator nor spouse worked off-farm on 73 percent of limited-resource and 65 percent of retirement farms. At the other extreme, both the operator and a spouse worked off-farm on 64 percent of residential/lifestyle farms. In the remaining farm types, the operator, a spouse, or both worked off-farm in 49 to 62 percent of farm households.

In other words, many farm households are dual-career, holding off-farm jobs as well as farming (Hoppe, 2001, pp. 45 and 49). About 46 percent of all farm households were dual-career, with a spouse working off the farm and the principal operator engaged in farming (with or without off-farm work). According to the Current Population Survey, about 42 percent of all U.S. households had two or more workers in 2004, so farm households are about as likely to be dual-career as U.S. households in general.

Off-farm work is not a recent phenomenon. About 30 percent of principal operators reported off-farm work in the 1930 and 1935 Censuses of Agriculture, generally for fewer than 100 days (fig. 10), with considerable variation by State. For example, in the 1935 Census, the share ranged from 18 percent in Iowa and 21 percent in New Jersey to 57 percent in Utah and 60 percent in South Dakota. The percentage working off farm was only 19 percent for South Dakota in the previous (1930) census, with the 5-year jump in off-farm work reflecting “relief work” taken on during drought (Jenkins and Robison, 1937, pp. 8 and 10).

Since 1969, the share of primary operators working off-farm has stabilized at just over 50 percent nationally. However, the share reporting working 200 days or more—essentially working full-time off the farm—increased steadily from 32 percent in 1969 to 39 percent in 2002.

Level of Principal Operator Household Income

Average principal operator household income was \$81,600 in 2004 (table 7), up from \$68,500 in 2003, with farming and off-farm income each

Table 7

Income and wealth of principal operator households, by farm type, 2004

Item	Small family farms					Large-scale family farms		
	Limited-resource	Retirement	Residential/lifestyle	Farming-occupation		Large	Very large	All farms
Low-sales				Medium-sales				
	<i>Number</i>							
Total households	197,734	338,671	837,542	395,781	133,299	86,087	71,708	2,060,822
	<i>Dollars per household</i>							
Mean household income	7,680	62,468	96,515	63,043	70,365	125,120	272,527	81,596
Farm earnings ¹	-5,902	*4,128	#-365	**4,925	*34,354	80,250	225,094	14,317
Off-farm income	13,582	58,339	96,879	58,118	36,011	44,870	47,434	67,279
Earned ²	3,463	20,252	83,548	36,950	26,241	33,238	29,320	48,818
Unearned ²	10,118	38,087	13,331	21,168	9,769	11,633	*18,114	18,461
	<i>Percent</i>							
Share of income from off-farm ³	176.8	93.4	100.4	92.2	51.2	35.9	17.4	82.5
Off-farm work—principal operator and spouse:								
Only operator ⁴	18.6	**10.7	35.9	12.3	6.8	8.9	7.3	21.5
Only spouse	*7.2	16.7	0.0	22.5	38.5	33.4	31.8	12.8
Neither ⁵	72.6	64.8	0.0	48.0	38.5	45.9	51.1	33.0
Both	d	7.8	64.1	17.2	16.1	11.8	9.8	32.7
Households with:								
Negative farm earnings	72.1	50.8	64.4	44.4	24.6	16.8	16.3	52.8
Negative household income	19.6	*1.2	*0.5	#5.0	13.0	10.5	12.1	5.0
	<i>Dollars per household</i>							
Mean household net worth	462,555	685,957	587,960	733,600	1,023,428	1,413,494	2,234,670	739,953
Farm net worth	389,024	464,673	368,200	542,217	910,361	1,237,765	1,975,385	546,788
Nonfarm net worth	73,531	221,284	219,760	191,383	113,067	175,729	259,286	193,165
	<i>Percent</i>							
Share of net worth from the farm	84.1	67.7	62.6	73.9	89.0	87.6	88.4	73.9
Real estate share of farm assets ⁶	84.8	87.1	83.9	80.0	70.8	68.9	67.8	77.9

Note: Household income and net worth are calculated only for family farms. d = Data suppressed due to insufficient observations.

*=Standard error is between 25 percent and 50 percent of the estimate. **Standard error is between 51 percent and 75 percent of the estimate. # = Standard error is greater than 75 percent of the estimate.

¹Farm earnings in this table and net farm income in table 5 are not directly comparable. Net farm income includes cash and noncash items, is based on accrual accounting, and is calculated for the farm business. Farm earnings—in contrast—are based on cash items only, with the exception of a deduction for depreciation. Farm earnings also exclude the share of net income generated by the farm paid to other households, such as the households of partners. For more information about the definition of farm earnings, see Appendix I.

²Earned income comes from off-farm self-employment or wage/salary jobs. Unearned income includes interest and dividends, benefits from Social Security and other public programs, alimony, annuities, net income of estates or trusts, private pensions, regular contributions of persons not living in the household, net rental income from nonfarm properties, and royalties for mineral leases.

³Income from off-farm sources can be more than 100 percent of total household income if farm earnings are negative.

⁴Includes households where the operator works off-farm and there is no spouse.

⁵Includes households where the operator does not work off-farm and there is no spouse.

⁶Includes farm business assets held by the principal operator's household and other households.

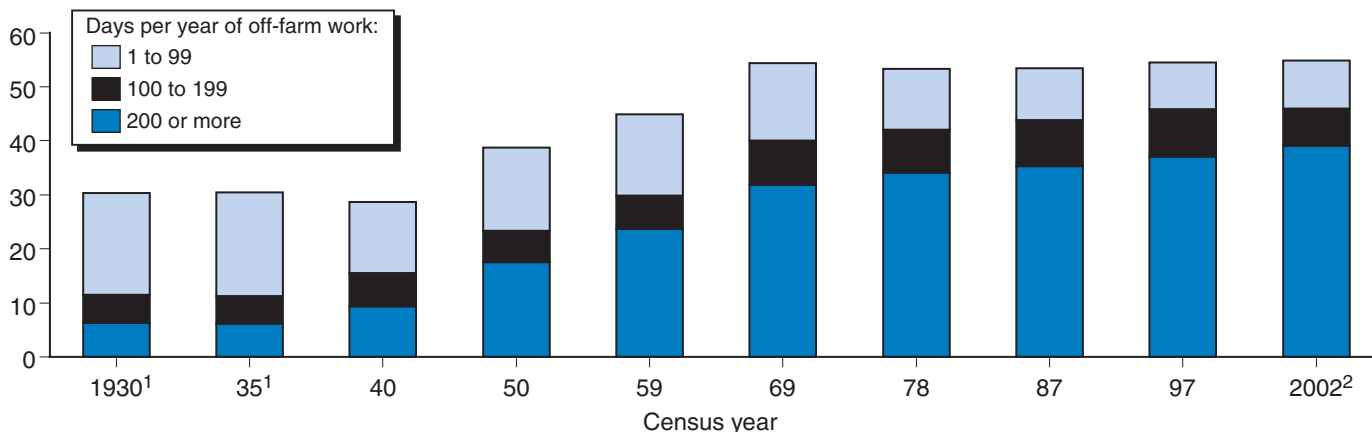
Source: USDA, Economic Research Service, 2004 Agricultural Resource Management Survey, Phase III.

Figure 10

Principal farm operators reporting off-farm work, selected census years, 1930 to 2002

Principal farm operators have worked off-farm since at least the 1930s

Percent



Note: Includes any day the principal operator worked at least 4 hours off the farm.

¹Excludes Alaska and Hawaii.

²Beginning with the 2002 census, days of off-farm work are imputed if not reported.

Source: USDA, Economic Research Service, compiled from census of agriculture data.

contributing about half of the \$13,100 increase. Households operating large and very large farms experienced substantial increases—\$22,700 and \$58,300, respectively—mostly from farming. Average farm household income was about 35 percent higher than the average for all U.S. households in 2004, as measured by the Current Population Survey.

Mean income may not be the best choice for comparison, because a few very high-income households can raise the mean well above the income received by most households. Nevertheless, using medians still results in higher income for farm households (fig. 11). Median farm-operator household income in 2004 was \$53,700, 21 percent higher than the median for all U.S. households. Households operating residential/lifestyle, large, or very large farms had a median household income above the median for all U.S. households. The median for retirement and medium-sales households, in contrast, did not differ from the U.S. median by a statistically significant amount. Only two types of farm households—those operating limited-resource or low-sales farms—received median household income below the U.S. median.

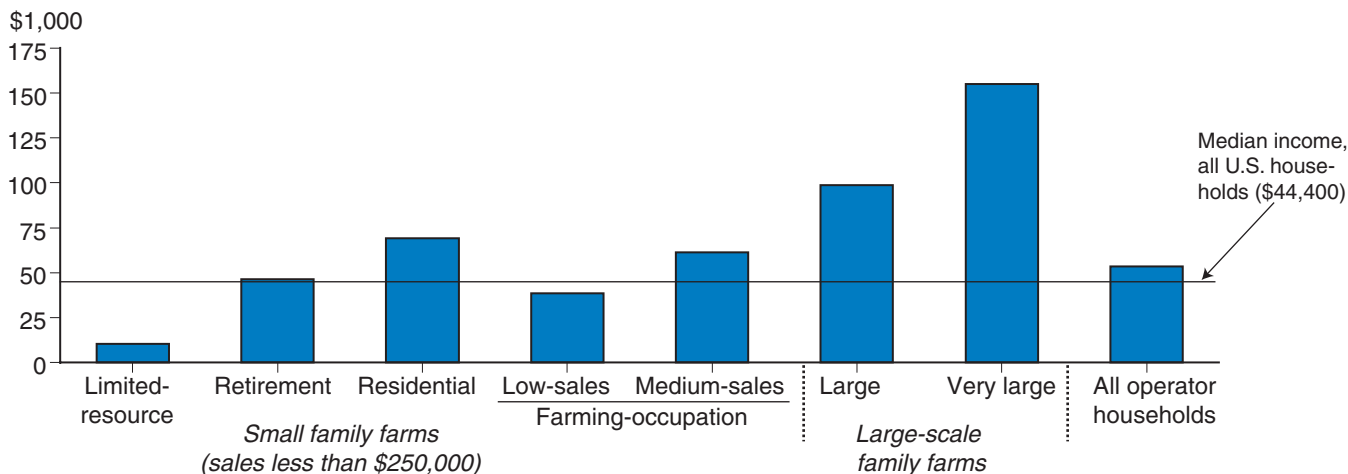
Net Worth

The income that farm operator households receive from farming does not reflect the large net worth of many farm households. For example, for households on farms with gross sales of at least \$100,000, average net worth ranged from \$1 million for medium-sales farms to \$2.2 million for very large family farms in 2004 (table 7). Virtually all farm households had a net worth greater than the median net worth for all U.S. households, and nearly two-thirds had a net worth greater than the median for U.S. households with a self-employed head (table 8).

Figure 11

Median income of principal-operator households, 2004

Farm households tend to have higher income than U.S. households in general



Note: Median income falls at the midpoint of the distribution of households ranked by income. Half of the households have income above the median, while the other half have income below that level.

Source: USDA, Economic Research Service, 2004 Agricultural Resource Management Survey, Phase III, for farm households. U.S. Bureau of the Census, 2005 Current Population Survey for all U.S. households.

Table 8

Net worth for farm households versus all U.S. households, 2004

Farm households with a net worth greater than—	All farm households	Limited-resource households
	<i>Percent</i>	
Median for all U.S. households (\$93,100)	95.1	85.7
Median for all U.S. households with self-employed head (\$335,600)	64.8	42.8

Source: USDA, ERS, 2004 ARMS for farm households. Federal Reserve Board, 2004 Survey of Consumer Finances (Bucks et al., 2006, p. A8) for net worth of all U.S. households and households with a self-employed head.

Even limited-resource households have a relatively high net worth. Eighty-six percent have a net worth higher than the median for all U.S. households, and 43 percent have a net worth greater than the median for households with a self-employed head. The current limited-resource definition has no constraint on farm assets, instead focusing on low household income and low farm sales over a 2-year period. An earlier definition constrained assets, which resulted in a much lower net worth for limited-resource households. For more information, see “Appendix II: Defining Limited-Resource Farms—Past, Present, and Future”.⁷

Unlike income, most of which comes from off-farm sources, net worth from the farm makes up most of the wealth of farm households, regardless of farm type. The farm accounts for 63 to 89 percent of operator household net worth, reflecting the land-intensive nature of farming (table 7). However, much of the net worth of farm households is illiquid—and not available to spend for consumption—because it is largely based on assets necessary to continue farming. Real estate alone amounted to 78 percent of total farm assets.

⁷ERS plans to explore alternate limited-resource definitions to identify different types of limited-resource farms and farmers. It will continue to provide information about limited-resource farms as defined under the current definition, because that definition is used by USDA agencies to administer programs. To facilitate comparing the current and alternate definitions, the limited-resource category will be dropped from the ERS farm classification system. However, there will be more information on counts and characteristics of limited-resource farmers under different definitions.