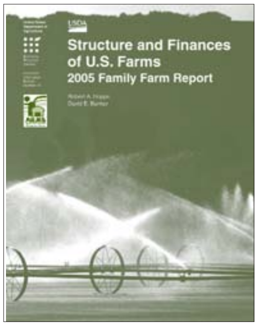
ERS Report Summary

Resources and Environment

Economic Research Service | May 2006 | U.S. Department of Agriculture



This is a summary of an ERS report.

Find the full report at www.ers.usda.gov/publications/eib12

See the companion brochure, America's Diverse Family Farms, at www.ers.usda.gov/publications/eib13

Structure and Finances of U.S. Farms: 2005 Family Farm Report

Robert A. Hoppe and David E. Banker

Farming in the United States is very diverse, ranging from very small retirement and residential farms to enterprises with annual sales in the millions of dollars. Farms are operated by individuals on a part-time basis, by multiple generations of a family, and by managers of nonfamily corporations. Some specialize in a single product, while others produce a wide variety of products. But despite their diversity of scale, business structure, and production mix, most U.S. farms are family farms. The characteristics of family farms and the farmers who operate them have implications for the economic well-being of farm households and for farm policy.

What Is the Issue?

Agricultural policymakers require information on how U.S. farming is organized. The Economic Research Service (ERS) produces a periodic report with that information. The *2005 Family Farm Report* is the most recent in the series, providing agricultural policymakers with an accurate, detailed, and unbiased source of information on how farming in the United States is organized, including the relationship of farm size and type to agricultural production, financial performance, sources of farm household income, the extent of off-farm work, and use of production contracts.

What Did the Study Find?

Most U.S. farms—98 percent in 2003—are family farms, defined as operations organized as proprietorships, partnerships, or family corporations that do not have hired managers.

Distribution of farms, total production, assets, and production under contract, by farm type, 2003

Farm type	Farms	Value of production	Farm assets	Production under contract[1]
	Percent of U.S. total			
Small family farms:[2]				
Limited-resource	11.1	1.4	7.1	0.5
Retirement	14.6	1.5	10.2	0.5
Residential/lifestyle	42.1	5.2	27.1	1.5
Farming-occupation				
Low-sales	17.2	6.6	16.0	3.3
Medium-sales	6.4	12.3	11.0	7.6
Large-scale family farms:[2]				
Large family farms	4.0	14.4	9.7	11.5
Very large family farms	3.1	44.7	13.7	59.0
Nonfamily farms[2]	1.7	13.7	5.1	16.1

[1]Includes value of production of commodities under production or marketing contracts.
[2]Small farms have sales of less than $250,000; large farms have sales of $250,000 of more; no sales limit for nonfamily farms.
Source: USDA, ERS, 2003 Agricultural Resource Management Survey, Phase III.

ERS is the main source of economic research and analysis from the U.S. Department of Agriculture, providing timely information on economic and policy issues related to agriculture, food, the environment,and rural America.

Larger family farms have more operators. Because farms are generally family businesses, family members other than the primary operators often serve as secondary operators. About two-thirds of the additional operators are the spouses of the primary operators. The number of operators per farm also tends to increase with size, because today's commercial farms often require more management and labor than an individual can provide. The number of operators per farm reaches 1.9—on average—for very large family farms. About a third of the very large multiple-operator farms have operators spanning more than one generation.

Small family farms account for most U.S. farms and hold most farm assets… Small family farms accounted for 91 percent of the farms in the United States in 2003. They also held about 71 percent of all farm assets, including 70 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. Small farms accounted for about 82 percent of the land enrolled by farmers in the Conservation Reserve and Wetlands Reserve Programs.

*…**But very large family farms and nonfamily farms produce a growing share of agricultural output***. Large and very large family farms, plus nonfamily farms, made up 9 percent of farms in 2003 but accounted for 73 percent of the value of production. Production has shifted sharply to very large farms and nonfamily farms since the late 1980s, mainly from small farms with sales between $10,000 and $249,999. Shifts in production away from small farms in that sales class are likely to continue, given their negative operating profit margin (on average) and the large, growing share of their operators who are at least 65 years old. (Sales classes are expressed in 2003 dollars in this summary and throughout the report.)

Nevertheless, small farms currently make significant contributions to the production of specific commodities, including hay, tobacco, cash grains and soybeans, dairy products, and beef cattle. Most production by small farms is concentrated among low- and medium-sales farms.

Large-scale farms are more likely than small farms to use contracts. Less than 10 percent of limited-resource, retirement, residential/lifestyle, and low-sales farms use production or marketing contracts. Twenty-eight percent of medium-sales farms have contracts, but this is much less than the share of large and very large farms that have contracts, 45 percent and 63 percent, respectively. Production under contact is concentrated among very large family farms, which account for 59 percent of the total production under marketing or production contracts.

Contracting has grown at a slow and steady rate over the years, but change is more rapid for some commodities. The share of total agricultural production under contract grew by only 5 percentage points, from 34 percent to 39 percent, between 1994-95 and 2003. But during the same period, the share of tobacco production covered by contracts went from 1 percent to 55 percent, while the contracting share of hogs increased from 31 percent to 57 percent.

Payments from conservation and commodity-related programs go to different types of farms. There are two main types of government payments—those from commodity-related programs and those from conservation programs. The distribution of commodity program payments is roughly proportional to the production of program commodities. As a result, medium-sales farms and large-scale farms received about three-quarters of commodity-related government payments in 2003. In contrast, the Conservation Reserve and Wetlands Reserve Programs target environmentally sensitive land rather than commodity production. Retirement, residential/lifestyle, and low-sales small farms received 64 percent of conservation program payments in 2003.

Small-farm households receive most of their income from off-farm sources. Average operating profit margins and average rates of return on assets and equity are negative for small farms, but positive for large, very large, and nonfamily farms. So, how do so many small farms continue to exist? Small-farm households typically receive substantial off-farm income and do not rely primarily on the farms for their livelihood. Most off-farm income is from earned sources, either wage-and-salary jobs or self-employment. Even households operating large and very large farms receive earned off-farm income of about $30,000 on average. For households receiving substantial off-farm income, changes in tax laws and the health of the nonfarm economy are probably more important than payments from farm programs.

Combining farm and off-farm income, the median farm household income in 2003 ($47,600) was 10 percent greater than the median for all U.S. households ($43,300). Only operators of limited-resource and retirement farms had a median income below the U.S. level.

How Was the Study Conducted?

The Agricultural Resource Management Survey (ARMS) is the main source of data in the *2005 Family Farm Report*. The ARMS is an annual survey designed and conducted by ERS and USDA's National Agricultural Statistics Service. Various censuses of agriculture and ERS farm sector income estimates are also used, particularly when following trends over long periods of time. The report uses the farm classification system developed by ERS to examine farm structure in the United States.