Conclusions

This report has four major findings important to understanding farms and farm-operator households today and in the future:

(1) Large family farms, very large family farms, and nonfamily farms account for most production. Shifts in production away from small farms are likely to continue.

(2) Small-farm households may farm for reasons other than generating a profit. Nevertheless, within each farm type, some farms have an operating profit margin of at least 10 percent.

(3) Three-fifths of U.S. farms do not receive government payments. For households operating these farms, changes in taxes and the nonfarm economy are probably more important than government payments.

(4) Primary operators of farms are older than other self-employed persons. Secondary operators on multiple-generation farms may have a role in replacing aging primary operators as they exit farming.

Shifts in Production

Large-scale family farms and nonfamily farms accounted for only 9 percent of farms in 2003, but created 73 percent of the value of production. Small family farms nevertheless account for significant portions of specific commodities: hay, tobacco, cash grains (including soybeans), dairy products, and beef cattle.

Production has shifted toward very large family farms and nonfamily farms since the late 1980s, mainly from small farms with annual sales between $10,000 and $249,999 and, to a lesser extent, large family farms. Shifts in production away from small farms with sales between $10,000 and $249,999 are likely to continue. These small farms have negative operating profit margins, on average, and a large and growing share of operators who are age 65 or older. The operators of many small farms with sales between $10,000 and $249,999 are not being replaced as they age, because it is difficult to make a profit at that scale.

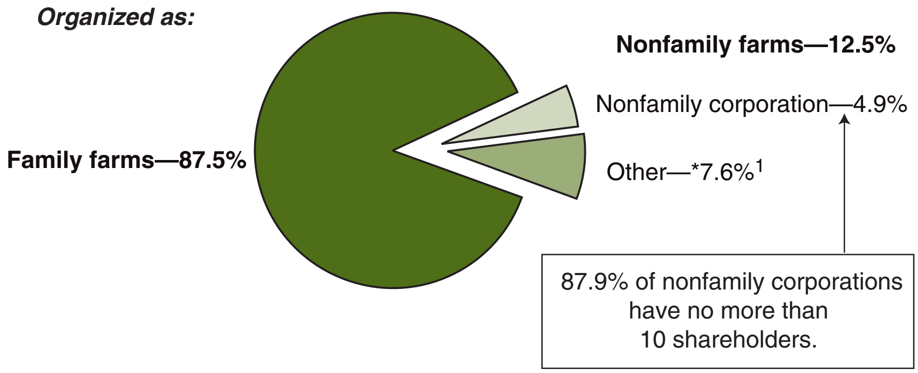
The larger farms most likely to increase their share of production over time are still overwhelmingly family operations. For example, 88 percent of the 28,300 farms with sales of $1 million or more in 2003 were family operations (fig. 15). In addition, direct ownership of million-dollar nonfamily farms by large, publicly held corporations is negligible and is likely to remain so. Only 6 percent of million-dollar farms were organized as nonfamily corporations, and 88 percent of these corporations had no more than 10 shareholders.

Figure 15

Organization of farms with sales of $1 million or more, 2003

Most million-dollar farms are organized as family farms

Total number of million-dollar farms = 28,300



* = Standard error is between 25 percent and 50 percent of the estimate.

[1]Proprietorships, partnerships, or family corporations with hired managers. Also includes estates, trusts, and cooperatives.

Source: USDA, Economic Research Service, 2003 Agricultural Resource Management Survey, Phase III. (Number of shareholders is from version 1).

Small Farms and Profits

Farm financial data suggest that many small family farms—particularly those with sales less than $10,000—are not operated as profit-maximizing enterprises. Their owners may accept losses in order to meet goals other than operating a profitable farm, such as: receiving long-term capital gains; sheltering off-farm income from taxes; living the rural lifestyle that farming provides; and having the opportunity to pass the farm on to children and grandchildren. These farms are likely to continue in operation as long as the operator households have off-farm income large enough to meet living expenses and farm losses are not unduly large (Hoppe, et al., 2005, pp. 34 and 46). A very negative operating profit margin, on average, did not stop farms with sales less than $10,000 from increasing in number between 1989 and 2003.

Despite negative average profit measures for each type of small farm, a portion of farmers in each group manage to operate profitable farms. Between 15 percent and 37 percent of each small-farm group has an operating profit margin of at least 10 percent. Some farmers operate profitable small farms to provide for their livelihoods, or at least a portion of their livelihoods.

Government Payments, Taxes, and the Nonfarm Economy

Sixty-one percent of farms in 2003 did not participate in any farm programs. More farm families are directly affected by tax policy than farm policy, since all operators of family farms are subject to income and property taxes. One provision of the U.S. tax code allows farmers to write farm losses off against other income. There is no limit to the writeoff, as long as the farm has the potential to be profitable and the filer is materially involved in operating the farm (Freshwater and Reimer, 1995, p. 220). This provision is especially important to operators of residential/lifestyle farms who have substantial off-farm earned income.

Because many farm households, particularly those operating small farms, are dual-career and bring in a large share of their income from off-farm earnings, macroeconomic and monetary policies affecting the nonfarm economy are also important. Finally, the status of retirement programs and returns on investments are important to operators of retirement farms and to older operators in other farm types as they approach retirement.

Replacing Aging Farmers

The advanced age of principal operators raises concerns about exits from agriculture and the future of farming (Gale, 1994, p. 10; Gale 2002, pp 30-31). The traditional pool of replacement farmers has been young people who grew up on farms, but this pool has declined due to off-farm migration and the declining number of children born to farm women (Gale 1994, pp. 6-7). Previous research, however, concluded that finding replacement operators may not be a real problem for three principal reasons (Hoppe et al., 1996, p. 45; Gale, 1994, pp. 5, 34-35; Gale, RDP):

- Older farmers can be replaced with a smaller number of younger farmers producing more on larger farms.
- Roughly one-fifth of farm operators already classify themselves as retired. Any replacement of these operators by younger operators already has happened.
- Some younger replacement farmers currently work as secondary operators alongside older, primary operators on multiple-generation farms.

Because of the "one-farm, one-operator" rule previously used in farm data collection, the number of multiple-generation farms was unknown until recently. Data from the 2003 ARMS, however, put the number of multiple-generation farms at 167,600, which means they could provide replacement operators for only a fraction of the 2.1 million U.S. farms. In addition, some secondary operators on multiple-generation farms perform fairly specialized functions—such as marketing or field operations—and may not currently have the broad experience and skills necessary to take over a large farm.

On the other hand, relatively few replacement farm operators will be necessary for the larger, commercial-sized farms producing the bulk of farm products. The 2002 Census of Agriculture estimates that the 34,100 largest farms account for 50 percent of the sales of farm products, and the 143,500 largest farms account for 75 percent of sales (U.S. Dept. Agr., Nat'l. Ag. Stat. Serv., 2004, p. 45). Replacing the operators of these farms from multiple-generation farms involves much smaller numbers.