

## Farm Household Income and Wealth

*A large share of farm households are dual career, like their nonfarm counterparts. Off-farm work is not the sole purview of small farm households. Operators and spouses across the typology work off-farm or manage nonfarm businesses. Decisions about how to allocate labor, management skills, and other resources between farm and nonfarm employment affects the level and sources of income of farm households. In 1998, approximately 88 percent of money income, on average, came from nonfarm sources. But the portion of income from nonfarm sources varied across the typology, with households of very large farms earning only 15 percent of household income from off-farm sources. Unlike income, net worth from farm sources accounted for the majority of wealth of farm households regardless of typology group.*

Farm operator households' income averaged \$59,700 in 1998, which was about 15 percent higher than the \$51,900 average for all U.S. households. For all family farms, only 12 percent of farm operator household income came from farming in 1998, but that share varied by the farm typology (table 22). Wages and salaries were the single largest source of income, accounting for about half of total household income. Although farm operator households' dependence on off-farm income is commonly viewed as a recent development, one-fourth to one-third of farm operators worked off-farm in the 1930's and 1940's (fig. 22). The proportion of operators working at least some days off-farm has remained stable since the late 1960's. The biggest shift has not been the share of operators working off-farm but, instead, operators spending more of their work days in off-farm jobs.

A large share of farm households today are dual career, or “bivocational,” households like their nonfarm counterparts (table 23). Off-farm work is not the sole purview of small farm operators and households, since operators and spouses across the typology hold off-farm jobs. By definition, almost all residential/lifestyle operators hold an off-farm job along with 61 percent of their spouses. But one in six operators of large and very large family farms work off-farm. A large share of their spouses hold off-farm jobs for a variety of reasons, as discussed earlier.

In addition to off-farm work that generates wages and salaries, some operators also earn net income from operating a second business, a second farm, or some other pursuit. A farm household's sources and level of income depend on a combination of decisions on allocating labor, management skills, and other resources between farming and other activities.

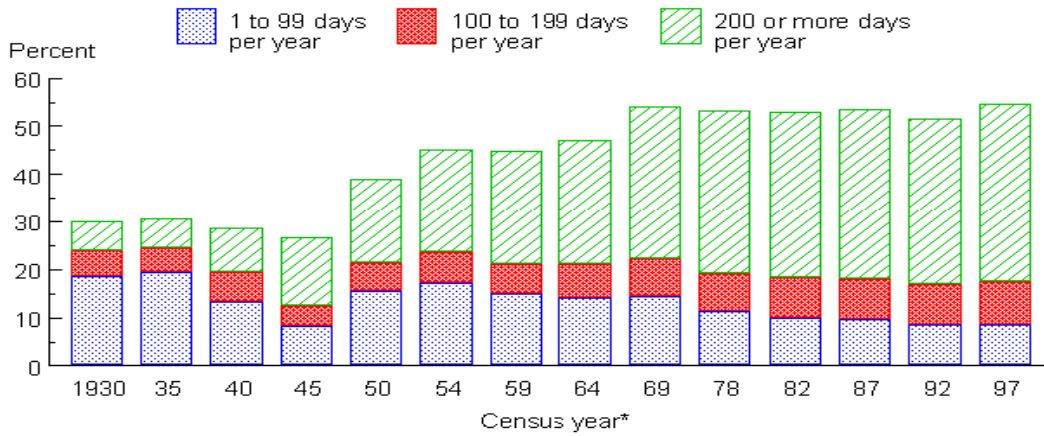
**Table 22—Operator household income, by farm typology group, 1998**

Item	Small family farms <sup>1</sup>				Large family farms <sup>1</sup>	Very large family farms <sup>1</sup>	All family farms	
	Limited-resource <sup>2</sup>	Retirement <sup>3</sup>	Residential/lifestyle <sup>3</sup>	Farming-occupation <sup>3</sup>				
				Low-sales				High-sales
<i>Number</i>								
Total households	150,268	290,938	834,321	422,205	171,469	91,939	61,273	2,022,413
<i>Dollars per household</i>								
Total household income	9,924	45,659	72,081	34,773	50,180	106,541	209,105	59,734
Farm earnings	*-3,230	d	-4,309	*-2,413	21,463	59,288	175,866	7,106
Off-farm income	13,153	47,158	76,390	37,186	28,717	47,252	33,240	52,628
Earned <sup>4</sup>	7,035	16,445	67,752	21,468	20,759	31,054	21,639	39,148
Unearned <sup>4</sup>	6,119	30,713	8,638	15,718	7,957	16,198	11,601	13,480
<i>Percent</i>								
Operator household income compared with U.S. average <sup>5</sup>	19.1	88.1	139.0	67.1	96.8	205.5	403.2	115.2
Share from off-farm sources <sup>6</sup>	132.5	103.3	106.0	106.9	57.2	44.4	15.9	88.1
Households with:								
Positive household income and—								
Loss from farming	57.3	58.2	71.1	47.2	10.9	6.7	4.0	53.2
0-24 pct. from farming	19.7	28.2	23.4	16.4	10.0	*10.8	*3.7	20.0
25-49 pct. from farming	d	6.5	2.4	11.5	13.5	7.5	6.9	6.1
50-74 pct. from farming	d	d	1.3	6.1	15.3	16.6	18.7	4.9
75 pct. or more from farming	d	d	d	7.6	33.8	45.5	55.6	9.4
Negative household income <sup>7</sup>	*9.8	d	*1.5	11.2	16.5	13.0	11.1	6.4
<i>Dollars per household</i>								
Nonmoney income <sup>8</sup>	1,868	5,437	5,174	5,097	4,667	4,382	4,882	4,862
<i>Dollars per farm</i>								
Depreciation <sup>9</sup>	*843	*1,562	2,307	5,267	17,024	34,648	67,726	7,409

d = Data suppressed due to insufficient observations or because the standard error is greater than 75 percent of the estimate. \* = Standard error is between 25 and 50 percent of the estimate. <sup>1</sup>Small family farms have sales less than \$250,000. Large family farms have sales between \$250,000 and \$499,999. Very large family farms have sales of \$500,000 or more. <sup>2</sup>Limited-resource farms have household income less than \$20,000, farm assets less than \$150,000, and sales less than \$100,000. <sup>3</sup>Small farms other than limited-resource farms are classified according to the major occupation of their operators. Operators of retirement farms are retired. Operators of residential/lifestyle farms report a nonfarm occupation. Operators of farming-occupation farms report farming as their major occupation. Farming-occupation farms are further divided into low-sales (sales less than \$100,000) and high-sales (sales between \$100,000 and \$249,999). <sup>4</sup>Earned income comes from off-farm self-employment or wage or 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. <sup>5</sup>Average farm household income divided by U.S. average household income (\$51,855). <sup>6</sup>Income from off-farm sources can be more than 100 percent of total household income if earnings of the operator household from farming activities are negative. <sup>7</sup>Household income can be negative if the loss from farming is larger than income from off-farm sources. Alternatively, farming and off-farm activities may both result in a loss, or off-farm activities may result in a loss that is larger than farm earnings. <sup>8</sup>Imputed rental value of the farm operator's dwelling, plus the value of farm products used or consumed on the farm. Nonmoney income is generally presented on a per-farm basis in the farm's income statement, but one can safely assume it accrues mostly to operator households. <sup>9</sup>Depreciation is used to calculate net income for the farm business. Thus, it is properly expressed on a per-farm basis, rather than a per-household basis. Source: USDA, Economic Research Service, 1998 Agricultural Resource Management Study, version 1.

Figure 22  
**Farm operators reporting off-farm work, 1930-97**

*Farm operators worked off-farm as early as the 1930's*



\*Data for 1974 are unavailable.

Source: Census of Agriculture, various years.

**Table 23—Farm business arrangements, by farm typology group, 1998**

Item	Small family farms <sup>1</sup>				Large family farms <sup>1</sup>	Very large family farms <sup>1</sup>	All family farms	
	Limited-resource <sup>2</sup>	Retirement <sup>3</sup>	Residential/lifestyle <sup>3</sup>	Farming-occupation <sup>3</sup>				
				Low-sales				High-sales
	<i>Number</i>							
Number of farms	150,268	290,938	834,321	422,205	171,469	91,939	61,273	2,022,413
Percent of farms	7.3	14.1	40.4	20.4	8.3	4.5	3.0	100.0
	<i>Percent</i>							
Operator occupation:								
Farming	35.4	na	na	100.0	100.0	95.1	96.3	39.2
Something else	30.1	na	100.0	na	ns	*3.9	3.0	43.8
Retired	34.6	100.0	na	na	na	d	d	17.0
Operator had off-farm job	45.5	*17.6	95.6	27.3	21.8	16.9	14.4	53.0
Spouse had off-farm job	15.3	17.2	60.6	39.5	45.7	49.0	34.8	43.1
Net income from another farm	d	d	*1.5	2.0	2.4	*2.9	4.5	1.7
Net income from another business	d	4.1	19.2	9.7	11.3	*15.8	8.3	12.6

d = Data suppressed due to insufficient observations. na = Not available. \* = Standard error is between 25 and 50 percent of the estimate. <sup>1</sup>Small family farms have sales less than \$250,000. Large family farms have sales between \$250,000 and \$499,999. Very large family farms have sales of \$500,000 or more. <sup>2</sup>Limited-resource farms have household income less than \$20,000, farm assets less than \$150,000, and sales less than \$100,000. <sup>3</sup>Small farms other than limited-resource farms are classified according to the major occupation of their operators. Operators of retirement farms are retired. Operators of residential/lifestyle farms report a nonfarm occupation. Operators of farming-occupation farms report farming as their major occupation. Farming-occupation farms are further divided into low-sales (sales less than \$100,000) and high-sales (sales between \$100,000 and \$249,999). Source: USDA, Economic Research Service, 1998 Agricultural Resource Management Study, version 1.

Operator household income is defined to be consistent with the Bureau of the Census Current Population Survey (CPS) definition of money income for all U.S. households. Household income consists of the operator household's share of net cash income, less depreciation, plus any other farm-related or off-farm income the household may receive in cash. No adjustments are made to income for receipts of noncash items, such as farm products consumed by the farm family. Farm operator household net worth is the sum of the operator household's farm net worth and nonfarm net worth. If the net worth of the farm is shared with other households, only the operator household's share is included. (See the box [“Defining Operator Household Income and Net Worth.”](#))

## **Level and Sources of Income**

The level and sources of income varied widely across the farm typology groups ([table 22](#)). Households operating very large farms had the highest average household income, \$209,100, about four times the average for all U.S. households. These households received only 16 percent of their income from off-farm sources, much less than the other groups. Seventy-four percent of these households relied on farming for at least half of their income.

Average household income for households operating these very large farms varied somewhat regionally. Statistically significant differences between regional averages and the \$209,100 U.S. average for the group occurred in only two regions: the Prairie Gateway (\$134,300) and the Eastern Uplands (\$90,200). Households operating very large farms in the Eastern Uplands also received 31 percent of their income from off-farm sources, nearly double the 16-percent average for all operator households in the group. (See the box, “Geographic Units,” in [“Attributes of Small and Large Farms”](#) for a description of the geography used here.)

Households operating residential/lifestyle farms or large farms also had income above the average for all U.S. households. But the sources of income differed between the two groups. Households with residential/lifestyle farms earned virtually all of their income from off the farm, largely from earned sources (self-employment or wage or salary jobs). About 71 percent had positive household income but a loss from farming, a substantially larger percentage than any other farm typology group. As mentioned in the discussion of farm attributes, 32 percent of residential/lifestyle farms specialized in beef, which in the case of cow-calf enterprises can have relatively low labor requirements that mesh well with off-farm work.

In contrast, households with large farms earned only 44 percent of their income from off-farm sources, and most (62 percent) of these households earned at least half of their income from farming. Only 10 percent of the operators with large farms specialized in beef cattle. The most common specialization for large family farms was cash grain (44 percent of farms, from [“Attributes of Small and Large Farms”](#)).

Households operating retirement farms or high-sales small farms had an average income that did not differ from the average for all U.S. households by a statistically significant amount. About 58 percent of the households with retirement farms had positive household income, but a loss from farming. Another 28 percent received less than 25 percent of their income from farming. In other words, most income of households with retirement farms came from off the farm, and 67 percent of their total income was from unearned sources, such as Social Security and investments. Although the operators of

## Defining Operator Household Income and Net Worth

**Household Income.** The Current Population Survey (CPS), conducted by the Bureau of the Census, is the source of official U.S. household income statistics. Thus, calculating an estimate of farm household income from Agricultural Resource Management Study (ARMS) that is consistent with CPS methodology allows income comparisons between farm operator households and all U.S. households.

The CPS definition of farm self-employment income is net money income from the operation of a farm by a person on his own account, as an owner or renter. CPS self-employment income includes income received as cash, but excludes in-kind or nonmoney receipts. No adjustments are made to the CPS income measure to reflect inventory changes, since inventory change is a nonmoney item. The CPS definition departs from a strict cash concept by deducting depreciation, a noncash business expense, from the income of self-employed people.

Farm self-employment income from the ARMS is the sum of the operator household's share of farm business income (net cash farm income less depreciation), wages paid to the operator, and net rental income from renting farmland. Adding other farm-related earnings of the operator household yields earnings of the operator household from farming activities. (Other farm-related earnings consist of net income from a farm business other than the one being surveyed, wages paid by the farm business to household members other than the operator, and commodities paid to household members for farm work.)

**Net Worth.** ARMS is also the source of data for estimates of operator households' net worth. Farm operator household net worth is defined as the difference between the operator household's assets and liabilities. It is calculated as the sum of the operator household's farm net worth and nonfarm net worth. If the net worth of the farm is shared with other households (such as the households of shareholders in a family corporation), only the operator household's share is included.

Note that household income and net worth are calculated only for "family farms," defined as farms organized as proprietorships, partnerships, and family corporations. Family farms exclude farms organized as nonfamily corporations or cooperatives, as well as farms with hired managers. Family farms are closely held (legally controlled) by their operator and the operator's household.

retirement farms reported that they were retired, households on these farms reported \$16,400 of off-farm income (on average) from earned sources. The off-farm work was performed by household members other than the operator, or by the operator part-time.

Households operating high-sales small farms relied much more heavily on farming than did their counterparts with retirement farms. Forty-nine percent of the households with farms in this group received at least half their income from farming, and farming accounted for 43 percent of the group's total household income, on average.

The two remaining groups—low-sales and limited-resource households—received income below the average for all U.S. households. Most of their income came from off-farm sources, with unearned

income accounting for more than two-fifths of their off-farm income. This reflects the relatively high percentage of elderly farmers in these groups. Approximately a third of limited-resource farmers reported they were retired, and nearly half were at least 65 years old. Lower-sales farmers reported farming as their major occupation, but 36 percent were at least 65 years old. Many of these older farmers received Social Security income by scaling back their farming activities and restricting their off-farm work.

## **The Farm's Other Contributions**

Earnings of the operator household from farming activities are not a complete measure of the contributions of the farm to the economic well-being of the farm operator's household. A focus on money income (as defined in the CPS) leaves out other resources the farm business makes available to the household.

### ***Excluded Income***

Household income excludes nonmoney income, or the imputed rental value of the farm dwelling plus the value of farm products consumed on the farm, largely food and firewood. Nonmoney income represents a business contribution to household income because it frees up household cash that would otherwise be spent on shelter, food, and heating fuel.

Based on reported farm survey data, estimates of average nonmoney income for 1998 were fairly low for each typology group, ranging from \$1,900 to \$5,400 (table 22). However, for low-income farm households—such as those operating limited-resource farms—any income (cash or otherwise) can be critical. Nonfarm households may also receive nonmonetary income. For example, the Bureau of the Census estimated that the imputed annuity value of the equity of owner-occupied housing averaged \$3,400 per U.S. household in 1998 (U.S. Department of Commerce, Bureau of the Census, 1999, pp. 49 and A-4). For all farm households, the estimate of nonmoney income was \$4,900 per household, 40 percent higher than for all U.S. households.

In addition, depreciation is an expense deducted from farm income, but it may not actually be used by the business for reinvestment during the current year. Thus, at least part of depreciation may be available to the household, after allowing for sharing of farm income with other households involved with the farm. Depreciation increases with farm size and is largest for high-sales small farms, large family farms, and very large family farms.

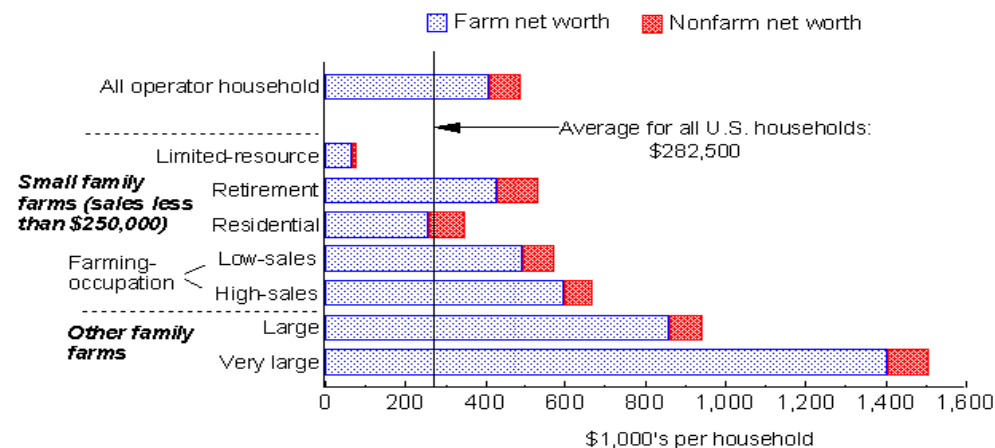
### ***Net Worth***

The earnings of operator households from farming do not reflect the large net worth of many farm operator households. Each group of farm households in the typology had an average household net worth above the \$282,500 average for all U.S. households in 1998, except for households operating limited-resource farms (fig. 23). For operators engaged in farming as a principal occupation, household net worth ranged from \$576,400 for low-sales small farms to \$1.5 million for very large family farms. Seventy-four percent to 93 percent of operator household net worth came from farm-related sources in 1998, reflecting the capital-intensive nature of farming. Unlike income, net worth from farm sources accounted for most of the wealth of farm households regardless of typology group.

Figure 23

### Average farm operator household net worth, by farm typology group, 1998

Most farm operator households' wealth is held as farm assets



Note: Household net worth data are not collected for nonfamily farms.

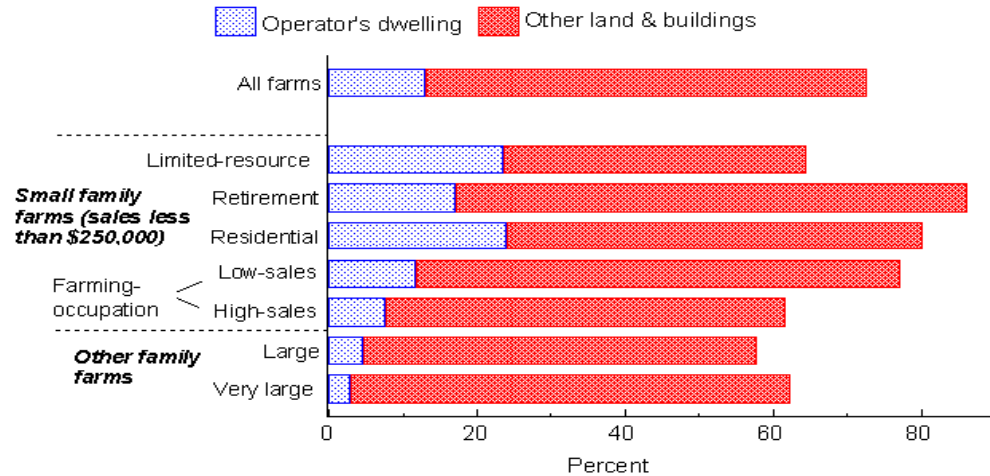
Source: USDA, Economic Research Service, 1998 Agricultural Resource Management Study, version 1, for farm operator households. Federal Reserve System and U.S. Department of the Treasury, 1998 Survey of Consumer Finances, for all U.S. households (Kennickell and others, 2000, p. 7).

Most of the net worth of operator households is illiquid and not readily available for household spending, since it is largely based on assets necessary for farming. Real estate alone, including operator dwellings, made up 73 percent of all farm assets in 1998 (fig. 24). However, current assets tend to be liquid. (Current assets include cash, assets that will be turned into cash within a year, and assets that will be used up by the business within a year.) Farms may have inventories of crops, livestock, and production inputs that can be sold (table 24). They may also have accounts receivable that will likely yield cash in a short time. Of course, current liabilities must also be paid within 1 year. Working capital—the excess of current assets over current liabilities that could be drawn upon in business or household emergencies—was discussed in the “Farm Business Financial Performance” section.

Note, however, that not all assets, liquid or otherwise, are held by the operator household (see “Business Organization and Arrangements of Farms”); they may be shared with other households and not be entirely available to the operator household. For example, consider a partnership between two brothers, where both of the brothers bring assets to the farm business. The farm’s assets are shared by the two brothers and their households. Very large family farms had the smallest share of total farm assets held by the operator household in 1998, 76 percent. Even after accounting for multiple ownership of farm assets, the households of these very large family farms still had net worths that were, on average, five times as large as the net worth of all U.S. households.

Figure 24  
**Share of farm business assets in real estate, 1998**

*Most farm assets are in real estate*



Note: Includes both assets held by the operator household and assets held by others.

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

## Summary

The information presented in this section has policy implications for any discussion of farm households. Regardless of the type of farm, farm households rely to some extent on off-farm income. Virtually all income, on average, comes from off-farm sources for households operating limited-resource, retirement, residential/lifestyle, or low-sales farms. Even households with large and very large farms receive substantial off-farm income (an average of \$47,300 and \$33,200, respectively), although most of their income comes from farming activities. And as shown in [figure 22](#), opportunities to find employment in either the local nonfarm economy or within some reasonable commuting distance have been important to farm operators and their households for decades.

In addition, both operators and spouses may work off-farm, giving farm households dual career characteristics like their nonfarm counterparts. With the higher educational attainment of younger farm operators and spouses, the trend toward dual careers and multiple jobs is likely to continue. More technology lessening the need for onfarm labor could even accelerate this trend. For the 834,000 residential/lifestyle farmers, the nonfarm economy is particularly important, since most of them do not generate positive income from farming. For operators of retirement farms, the status of retirement programs and the returns on investments are also critical.



**Table 24—Current assets, noncurrent assets, and household net worth, by farm typology group, 1998**

Item	Small family farms <sup>1</sup>				Large family farms <sup>1</sup>	Very large family farms <sup>1</sup>	All family farms	
	Limited-resource <sup>2</sup>	Retirement <sup>3</sup>	Residential/lifestyle <sup>3</sup>	Farming-occupation <sup>3</sup>				
				Low-sales				High-sales
<i>Number</i>								
Total households	150,268	290,938	834,321	422,205	171,469	91,939	61,273	2,022,413
<i>Dollars per farm</i>								
Total farm business assets	76,108	442,270	291,525	560,567	772,106	1,219,986	2,334,272	498,213
Total current assets <sup>4</sup>	6,790	25,191	17,702	50,470	114,727	208,740	399,862	53,298
Livestock inventory	3,193	2,680	5,345	9,533	19,014	36,074	73,662	10,301
Crop inventory	*1,851	1,688	2,586	10,340	43,612	77,382	122,332	14,527
Purchased inputs inventory	*209	217	440	1,133	5,226	12,129	21,837	2,121
Sunk costs	**191	154	*1,438	694	3,094	8,065	24,298	2,140
Prepaid insurance	116	d	d	445	1,225	2,233	3,986	539
Accounts receivable	*155	d	d	2,415	5,641	15,415	56,736	3,944
Other current assets	1,230	*20,228	7,702	28,325	42,557	72,855	153,747	23,670
Total noncurrent assets	69,318	417,079	273,823	510,097	657,379	1,011,246	1,934,409	444,915
Real estate	49,123	381,470	233,516	433,484	476,931	707,104	1,459,630	362,160
Farm equipment	16,543	30,856	32,124	57,548	132,691	235,694	335,782	63,072
Breeding stock	3,601	4,583	8,020	17,802	42,397	58,110	119,489	17,808
Investment in co-ops	*50	*171	162	1,264	5,360	10,338	19,508	1,875
<i>Dollars per household</i>								
Farm business assets held by operator household	75,351	437,102	281,320	531,967	711,396	1,038,469	1,777,871	456,977
<i>Percent</i>								
Share of farm business assets held by operator household	99.0	98.8	96.5	94.9	92.1	85.1	76.2	91.7
Share of total assets that are current	8.9	5.7	6.1	9.0	14.9	17.1	17.1	10.7
Household net worth	78,718	535,943	347,909	576,402	669,458	944,533	1,508,151	492,195
Farm	66,092	429,926	256,571	494,745	599,501	859,591	1,405,548	408,377
Nonfarm	12,626	106,017	91,338	81,657	69,957	84,943	102,603	83,818

d = Data suppressed due to insufficient observations. \* = Standard error is between 25 and 50 percent of the estimate. \*\* = Standard error is between 51 and 75 percent of the estimate.

<sup>1</sup>Small family farms have sales less than \$250,000. Large family farms have sales between \$250,000 and \$499,999. Very large family farms have sales of \$500,000 or more.

<sup>2</sup>Limited-resource farms have household income less than \$20,000, farm assets less than \$150,000, and sales less than \$100,000.

<sup>3</sup>Small farms other than limited-resource farms are classified according to the major occupation of their operators. Operators of retirement farms are retired. Operators of residential/lifestyle farms report a nonfarm occupation. Operators of farming-occupation farms report farming as their major occupation. Farming-occupation farms are further divided into low-sales (sales less than \$100,000) and high-sales (sales between \$100,000 and \$249,999).

<sup>4</sup>Cash, assets that will be turned into cash within a year, and assets that will be used up by the business within a year.

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

Nevertheless, operators of many small farms may be interested in improving their earnings from farming, and activities such as extension education, innovative marketing programs, and credit targeted specifically at small farms may assist them. Trying to raise earnings from farming may be particularly appropriate for limited-resource farmers. Even modest improvements in household income could be important to these low-income farmers.

Not all the benefits of farming are included in the estimate of farm earnings, as measured here on a cash or money basis. Though typically not large, nonmoney income could be an important source of income to many low-income farm households. Moreover, the farm also affords an opportunity for wealth accumulation, especially since nonfarm demand for land affects the value of farm real estate, the largest source of asset holdings of all farm typology groups. Finally, for farmers operating limited-resource, retirement, and residential/lifestyle farms, a rural life may be more important than the level of farm income (Perry and Johnson, 1999, pp. 7-10).