

United States
Department of
Agriculture



Economic
Research
Service

Economic
Information
Bulletin
Number 13

America's Diverse Family Farms

Structure and Finances



America's Diverse Family Farms

American farms encompass a wide range of sizes, ownership structures, and business types. A farm classification system developed by USDA's Economic Research Service (ERS) categorizes farms into homogeneous groupings for reporting and evaluation purposes. The typology is based on farm sales, organization, and the farm operator's primary occupation.

Farm Types

The farm classification developed by ERS focuses on the "family farm," or any farm organized as a sole proprietorship, partnership, or family corporation. Family farms exclude farms organized as nonfamily corporations and cooperatives and farms with hired managers.

Small Family Farms (sales less than \$250,000)

- **Limited-resource.** Small farms with sales less than \$100,000 and low operator household income (defined as less than the poverty level for a family of four in 2003 and 2002 or less than half the county median household income in both years). Limited-resource farmers may report farming, a nonfarm occupation, or retirement as their major occupation.
- **Retirement.** Small farms whose operators report they are retired (excludes limited-resource farms operated by retired farmers).
- **Residential/lifestyle.** Small farms whose operators report a major occupation other than farming (excludes limited-resource farms with operators who report nonfarm work as their major occupation).
- **Farming-occupation/low-sales.** Small farms with sales less than \$100,000 whose operators report farming as their major occupation (excludes limited-resource farms whose operators report farming as their major occupation).
- **Farming-occupation/medium-sales.** Small farms with sales between \$100,000 and \$249,999 whose operators report farming as their major occupation.

Large-Scale Family Farms (sales of \$250,000 or more)

- **Large family farms.** Farms with sales between \$250,000 and \$499,999.
- **Very large family farms.** Farms with sales of \$500,000 or more.

Nonfamily Farms

- **Nonfamily farms.** Farms organized as nonfamily corporations and cooperatives, as well as farms operated by hired managers.

Cover photo courtesy CORBIS.

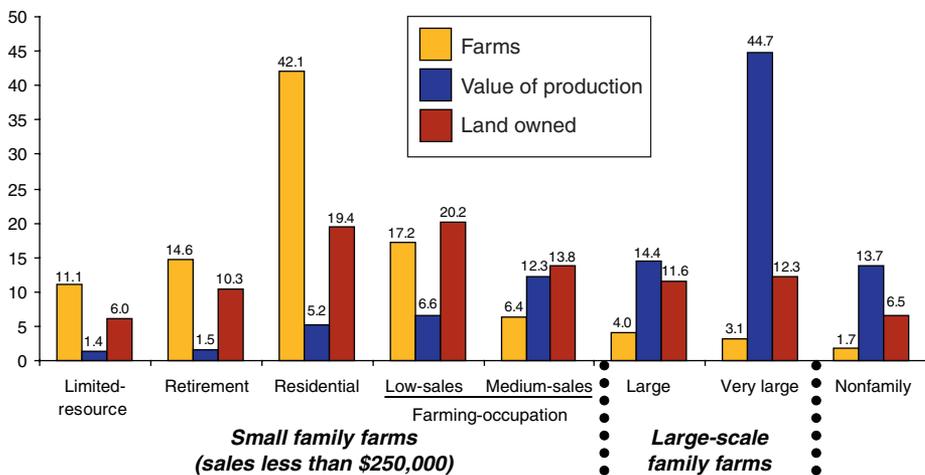
Farms, Land, and Production

Most farms are small, and most farmland is on small farms, but small farms accounted for less than 30 percent of agricultural production in 2003.

- In 2003, 91 percent of farms were small family farms, and those farms accounted for 70 percent of the land owned by farmers.
- Large-scale family farms and nonfamily farms accounted for 73 percent of agricultural production in 2003.
- Family farms of different sizes accounted for 98 percent of farms and 86 percent of production.

Distribution of farms, value of production, and land owned, 2003

Percent of U.S. total



Differences among farm types are illustrated in this bulletin using 2003 data from the Agricultural Resource Management Survey (ARMS), an annual survey conducted by ERS and USDA's National Agricultural Statistics Service.

For more information about the diversity of U.S. farms, see ERS's *Structure and Finances of U.S. Farms: 2005 Family Farm Report*.



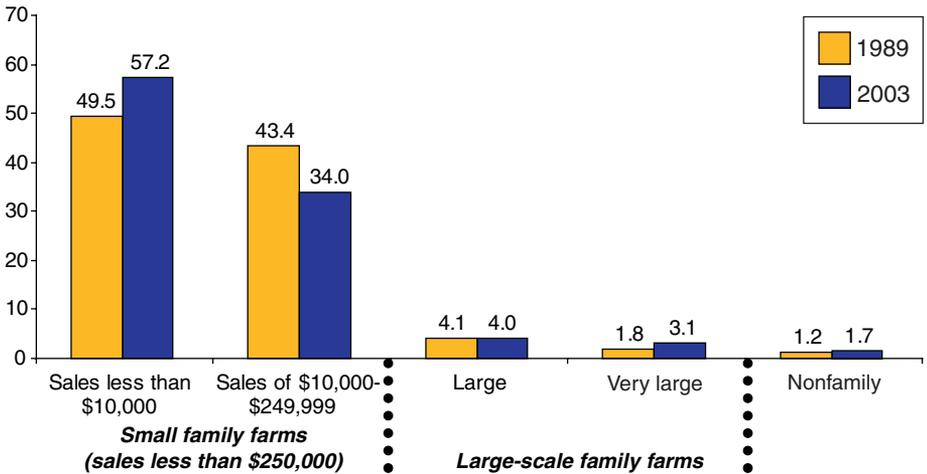
Changing Farm Structure

The number of small commercial farms, those with sales between \$10,000 and \$249,999, is declining, as is their share of production.

- Small commercial farms made up 34 percent of all farms in 2003, down from 43 percent in 1989.
- Small commercial farms' share of production fell from 40 percent to 26 percent between 1989 and 2003.
- Very small farms—farms with sales of less than \$10,000—accounted for 57 percent of all farms in 2003, up from 50 percent in 1989.
- Very large family farms, those with sales of more than \$500,000, accounted for 45 percent of farm production in 2003, up from 32 percent in 1989.

Distribution of farms, 1989 and 2003

Percent of U.S. farms



The 1989 farm types are defined in 2003 constant dollars. Sales were adjusted for inflation using the Producer Price Index for farm products. The 1989 estimates, based on the earliest comparable data, are drawn from an ARMS predecessor, the Farm Costs and Returns Survey.

Distribution of the value of production, 1989 and 2003

Percent of U.S. value of production

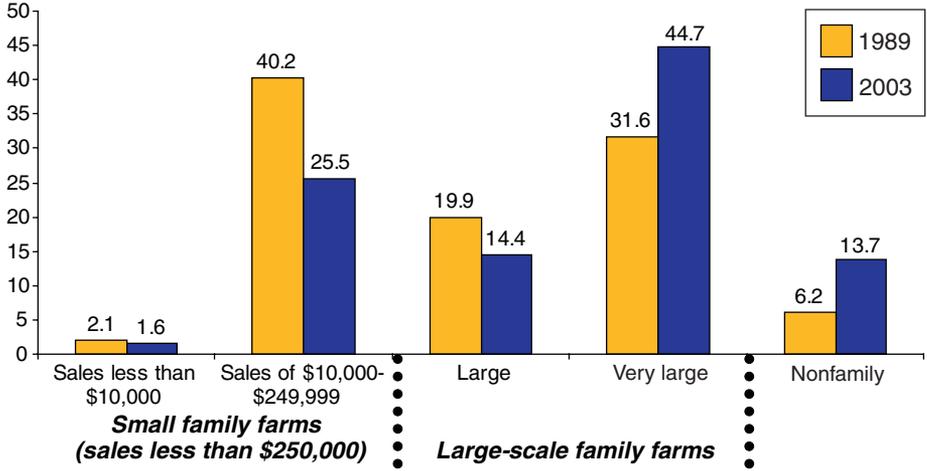


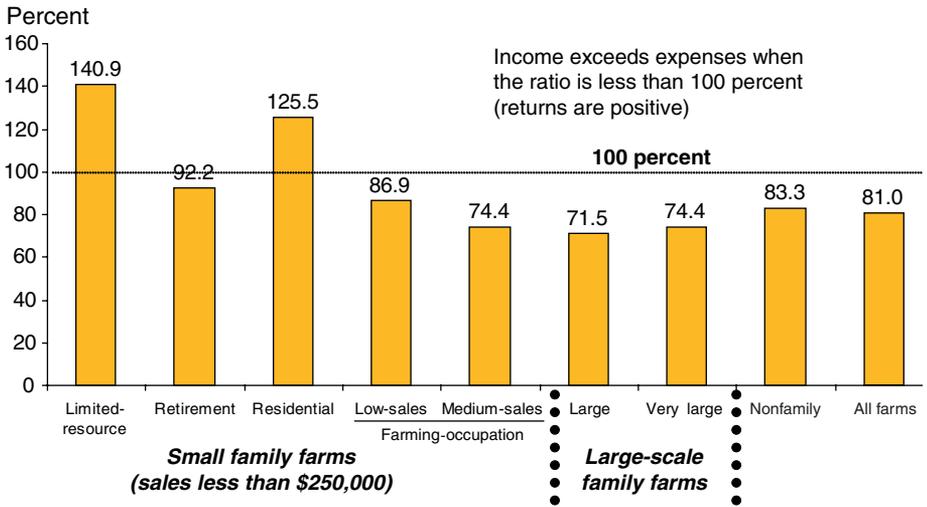
Photo courtesy CORBIS.

Farm Financial Performance

On average, medium-sales, large, and very large family farms have better financial performance than other family farms.

- About three-fourths of medium-sales, large, and very large farms cover expenses.
- Residential and limited-resource farms report large losses, on average.
- Nevertheless, some farms in each category report substantial operating profits.

Operating-expense ratio, 2003



The operating-expense ratio measures the share of gross cash income absorbed by cash operating expenses.



Photo courtesy CORBIS.

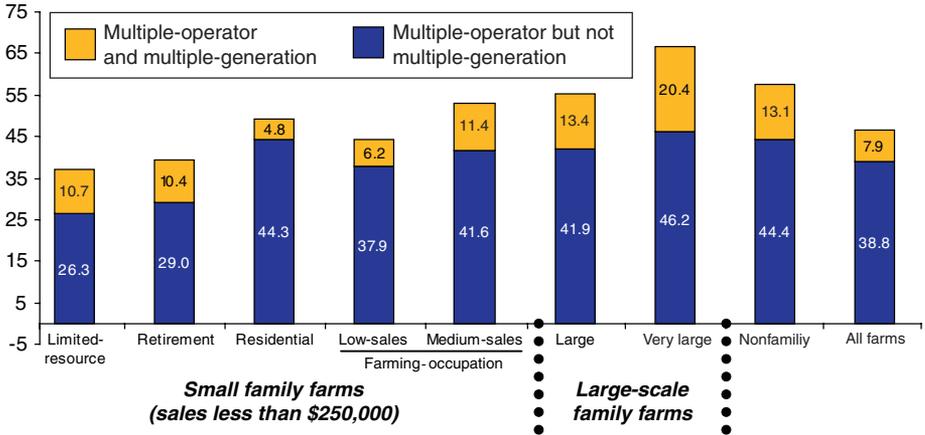
Farms and Farm Operators

Many farms have multiple operators, and many large farms have multiple generations of farm operators.

- Multiple-operator and multiple-generation enterprises are most common among very large family farms.
- Generational life-cycles, particularly the presence or absence of younger related operators, may affect farm expansion and contraction decisions.

Multiple-operator farms, 2003

Percent of farms in group



Multiple-operator farms: Farms with more than one operator.

Multiple-generation farms: Multiple-operator farms with a difference of at least 20 years between the ages of the youngest and oldest operators.



Photo courtesy PHOTODISC.

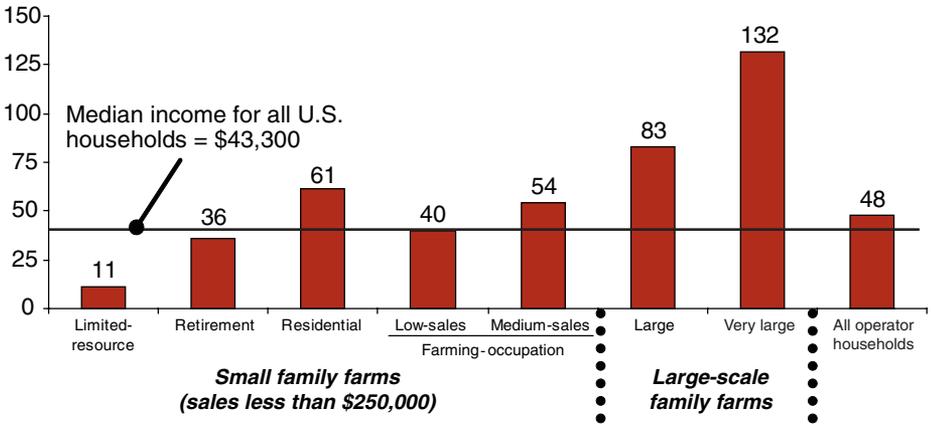
Farm Operator Income

Large and very large family farms generally realize substantial income from farming, while small family farms, especially those for whom farming is not the primary occupation, often report losses from farming.

- Most farm households earn incomes that exceed the U.S. average household income.
- Off-farm earnings provide the primary source of income for most types of small-farm households.

Median income of principal-operator households, 2003

Thousand dollars per household



The median falls at the midpoint of the income distribution, dividing households into two groups. Half of all households have income above the median, while the other half have income below the level. Household income is not estimated for nonfamily farms.

Average (mean) farm operator household income by source, 2003

| Type of farm | Total average income | From farming | From off-farm sources | | |
|----------------------------------|----------------------|--------------|-----------------------|---------------|---------------|
| | | | Total | Earned | Unearned |
| <i>Dollars per household</i> | | | | | |
| Small family farms: | | | | | |
| Limited-resource | 7,212 | -7,249 | 14,461 | 5,867 | 8,594 |
| Retirement | 49,688 | -- | 49,327 | 16,597 | 32,730 |
| Residential/lifestyle | 85,890 | -4,477 | 90,367 | 79,379 | 10,988 |
| Farming-occupation: | | | | | |
| Low-sales | 49,807 | 2,331 | 47,476 | 31,436 | 16,040 |
| Medium-sales | 60,723 | 29,528 | 31,195 | 20,577 | 10,618 |
| Large-scale family farms: | | | | | |
| Large family farms | 102,405 | 62,327 | 40,078 | 30,788 | 9,290 |
| Very large family farms | 214,232 | 171,958 | 42,274 | 28,184 | 14,089 |
| All family farms | 68,514 | 7,649 | 60,865 | 46,041 | 14,825 |

-- = Not statistically reliable.

Household income is not estimated for nonfamily farms.



Photo courtesy COREL-PRO-PHOTO.

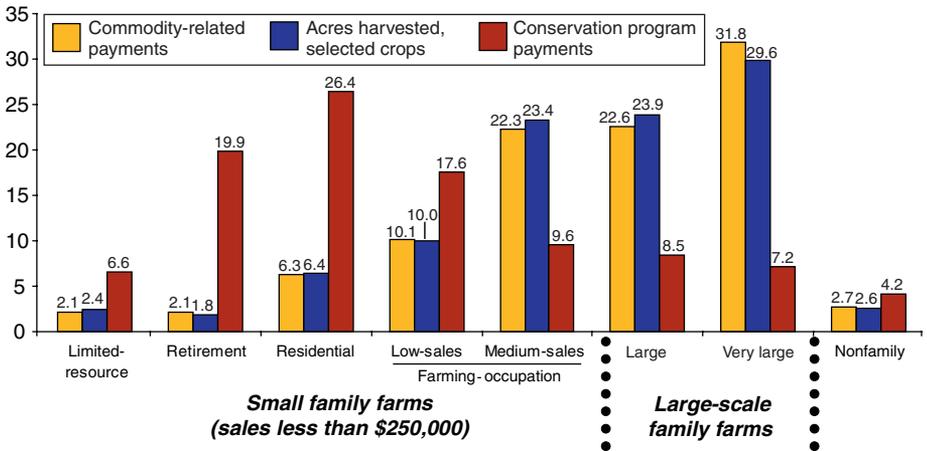
Government Payments

Government payments go primarily to family farms; however, commodity program payments tend to go to large-scale family farms, while conservation program payments tend to go to small family farms.

- Commodity program payments reflect acreage in crops historically eligible for support; in 2003, 54 percent went to family farms with at least \$250,000 in sales.
- Conservation and commodity payments are distributed among different farms; 80 percent of conservation payments go to farms with less than \$250,000 in sales.
- The share of farms receiving commodity payments is particularly high for medium-sales small farms and large-scale farms.

Distribution of payments from conservation and commodity programs, 2003

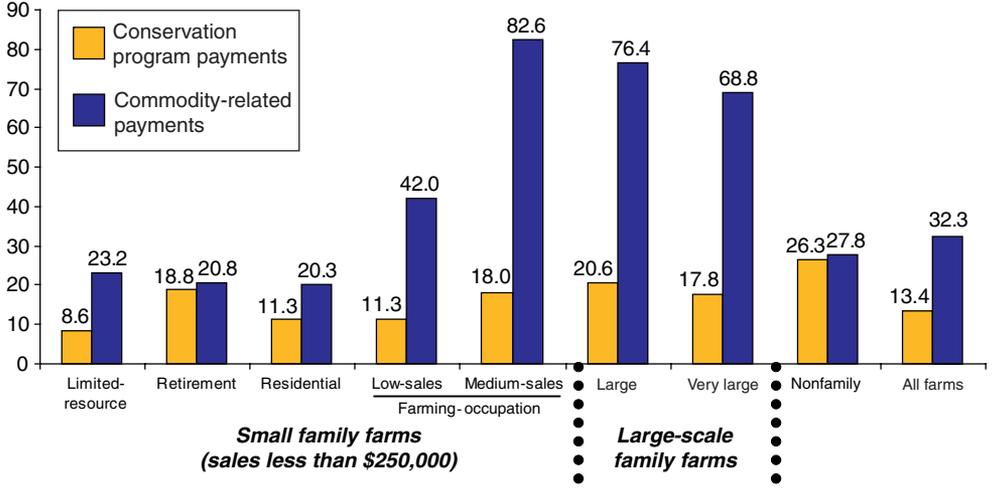
Percent of U.S. payments or harvested acres



Selected crops: Food and feed grains, soybeans, other oilseeds, cotton, and peanuts.

Farms receiving payments from conservation or commodity programs, 2003

Percent of farms in group



Conservation programs: Conservation Reserve Program (CRP), the Wetlands Reserve Program (WRP), and the Environmental Quality Incentives Program (EQIP).

Commodity-related programs: Direct payments, countercyclical payments, loan deficiency payments, marketing loan gains, net value of commodity certificates, peanut quota buyout, milk income loss contract payments, etc.



Photo courtesy CORBIS.

Farm Policy and Family Farms

- **Farming is still an industry of family businesses.** Ninety-eight percent of farms are family farms, and they account for 86 percent of farm production.
- **Family farms are diverse.** Very small farms are growing in number, and small family farms continue to own most farmland, but production is shifting toward very large family farms.
- **The nonfarm economy is critically important to operators of small family farms.** Because small-farm households receive most of their income from off-farm work, general economic policies, such as tax or economic development policy, can be as important to them as traditional farm policy.
- **Different farm policies affect different sets of farmers.** Commodity program payments tend to flow to large and very large family farms. Policies addressing natural resource and conservation concerns, which are often based on land ownership, flow primarily to small family farms.

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**May 2006
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