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Structure and Finances of U.S. Farms

Family Farm Report, 2007 Edition

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Abstract

U.S. farms are diverse, ranging from small retirement and residential farms to enterprises with annual sales in the millions. Nevertheless, most U.S. farms—98 percent in 2004—are family farms. Even the largest farms tend to be family farms. Large-scale family farms and nonfamily farms account for 10 percent of U.S farms, but 75 percent of the value of production. In contrast, small family farms make up most of the U.S. farm count, produce a modest share of farm output, and receive substantial off-farm income. Many farm households have a large net worth, reflecting the land-intensive nature of farming.

Keywords: Contracting, family farms, farm businesses, farm financial performance, farm operator household income, farm operators, farm structure, farm type, million-dollar farms, small farms.

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See the companion brochure, *America's Diverse Family Farms, 2007 Edition* (EIB-26)

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Summary

U.S. farms are 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 full- and part-time basis, by multiple generations of a family, by multiple families, and by managers of nonfamily corporations. Some specialize in a single product, while others produce a wide variety of products. Some have full control over their farming processes while others produce commodities under contract to strict specifications. But despite their diversity, most U.S. farms are family farms.

What Is the Issue?

Agricultural policymakers require information on how U.S. farming is organized. USDA's Economic Research Service (ERS) produces a periodic report with that information. The *Family Farm Report, 2007 Edition* 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, and the extent of off-farm work. The report provides a sense of the financial position of family farms in general and for different types of family farms.

What Are the Major Findings?

Most U.S. farms—98 percent in 2004—are family farms, defined as operations organized as proprietorships, partnerships, or family corporations that do not have hired managers. Nonfamily corporations make up a small and stable share of farm numbers and sales, accounting for less than 1 percent of farms and 6-7 percent of farm product sales in each agricultural census since 1978.

Distribution of farms, total production, and assets, 2004

Farm type	Farms	Value of production	Farm assets
		Percent of U.S. total	
Small family farms:[1]			
Limited-resource	9.4	1.0	5.5
Retirement	16.1	2.0	11.3
Residential/lifestyle	39.7	5.3	23.7
Farming-occupation			
Low-sales	18.8	5.5	16.9
Medium-sales	6.3	10.8	10.3
Large-scale family farms:[1]			
Large family farms	4.1	14.8	9.1
Very large family farms	3.4	45.4	16.1
Nonfamily farms[1, 2]	2.2	15.2	7.1

[1]Small farms have sales less than $250,000; large-scale farms have sales of $250,000 or more; no sales limit for nonfamily farms.

[2]Nonfamily farms include those organized as nonfamily corporations or cooperatives, as well as any other farms operated by hired managers. Also includes farms held in estates or trusts.

Source: USDA, ERS, 2004 Agricultural Resource Management Survey, Phase III.

Small family farms account for most U.S. farms and farm assets. Small family farms (sales less than $250,000) accounted for 90 percent of U.S. farms in 2004. They also held about 68 percent of all farm assets, including 61 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 82 percent of the land enrolled by farmers in the Conservation Reserve and Wetlands Reserve Programs (CRP and WRP).

Large-scale family farms and nonfamily farms produce the largest share of agricultural output. Large-scale family farms, plus nonfamily farms, made up only 10 percent of U.S. farms in 2004, but accounted for 75 percent of the value of production. Nevertheless, small farms made significant contributions to the production of specific commodities, including hay, tobacco, wheat, corn, soybeans, and beef cattle.

The number of larger farms is growing. The number of farms with sales of $250,000 or more grew steadily between the 1982 and 2002 Censuses of Agriculture, with sales measured in constant 2002 dollars. The growth in the number of these larger farms was accompanied by a shift in sales in the same direction. The most rapid growth was for farms with sales of $1 million or more. By 2002, million-dollar farms alone accounted for 48 percent of sales, compared with 23 percent in 1982.

For the most part, large-scale farms are more viable businesses than small family farms. The average operating profit margin and rates of return on assets and equity for large and very large family farms were all positive in 2004, and most of these farms had a positive operating profit margin. Small farms were less viable as businesses. Their average operating profit margin and rates of return on assets and equity were negative. Nevertheless, some farms in each small farm group had an operating margin of at least 20 percent. In addition, a majority of each small farm type had a positive net farm income, although the average net income for each small-farm type was low compared with large-scale farms.

Small farm households rely on off-farm income. Small farm households typically receive substantial off-farm income and do not rely primarily on their farms for their livelihood. Most of their off-farm income is from wage-and-salary jobs or self-employment. Because of their off-farm work, small farm households are affected significantly by the nonfarm economy. Households operating retirement or limited-resource farms, however, receive well over half of their income from such sources as Social Security, pensions, dividends, interest, and rent, reflecting the ages of operators on such farms.

Payments from commodity-related programs and conservation programs go to different types of farms. The distribution of commodity-related program payments is roughly proportional to the harvested acres of program commodities. As a result, medium-sales ($100,000-$249,999) and large-scale farms received 78 percent of commodity-related government payments in 2004. In contrast, CRP, which pays the bulk of environmental payments, targets environmentally sensitive land rather than commodity production. Retirement, residential/lifestyle, and low-sales small farms received 62 percent of conservation program payments in 2004. However, most farms—61 percent in 2004—receive no government payments and are not directly affected by farm program payments.

A growing number of farms operate under production and marketing contracts to guarantee an outlet for their production. About two-fifths of U.S. agricultural production is produced or marketed under contract, although the share varies by commodity and type of farm. Relatively few small family farms use production and marketing contracts, while 64 percent of very large family farms use contracts and, as a group, produce 61 percent of the value of production grown under contract.

How Was the Study Conducted?

The 2004 Agricultural Resource Management Survey (ARMS) is the main source of data in the *Family Farm Report, 2007 Edition*. ARMS is an annual survey designed and conducted by ERS and USDA's National Agricultural Statistics Service (NASS). Various censuses of agriculture, ERS estimates of farm productivity, NASS estimates of the number of farms, and labor force data from the Bureau of Labor Statistics are also used in this report, particularly for long-term trends. The report uses the farm classification system (see table, p. iii) developed by ERS to examine farm structure in the United States.