Conclusions

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

- Farm product sales have shifted to larger farms over the past two decades. Farms with sales of $250,000 or more accounted for 76 percent of all sales in the 2002 Census of Agriculture, and million-dollar farms alone accounted for 48 percent.
- Most U.S. farms—including million-dollar farms—are family farms. The share of farm output from large, publicly held corporations remains minimal.
- Generally, large and very large family farms are viable economic businesses, with favorable financial ratios. Small farm businesses are less viable as businesses, but the households operating them receive substantial off-farm income.
- Different farm policies affect different sets of farmers. Payments from commodity programs tend to flow to medium-sales and large-scale farms, and conservation payments tend to flow to smaller family farms. A majority of farms, however, receive no government payments, but they may be indirectly affected by the effects of government payments on farmland and commodity markets.

Shifts to Larger Farms

Constant-dollar sales class data show a steady growth in large farms (sales at least $250,000) and decline in the number of farms in most other sales classes. Growth in the number of large farms was accompanied by a sales shift in the same direction. The share of production accounted for by large farms grew from 47 percent in 1982 to 76 percent in 2002. By 2002, million-dollar farms alone accounted for 48 percent of sales, compared with 23 percent in 1982.

The only other increase in farm numbers was for farms with sales less than $10,000, which grew in the last two intercensus periods because of growth in the number of point farms. Most of this increase was due to a change in the census farm definition and an adjustment for undercoverage in the census farm count. Farms with sales less than $10,000 accounted for 59 percent of farms in 2002, up from 49 percent in 1982. Their share of sales, however, declined from 3 percent in 1982 to 1 percent in 2002. Thus, the 29-percentage-point increase in the share of sales for large farms came largely from a declining share for farms in the $10,000-$249,999 sales classes.

The Place of Family Farms in U.S. Agriculture

Family farms dominate U.S. agriculture. Most farms (98 percent) are family farms, and they collectively generate 85 percent of the value of production. Large-scale family farms account for about 60 percent of production, which is large compared with their 8-percent share of farms. Small family farms make significant contributions to the production of specific commodities, such as wheat, corn, soybeans, hay, tobacco, and beef.

Even million-dollar farms are overwhelmingly family operations. About 88 percent operated as family farms in 2004, and only 5 percent were organized as nonfamily corporations, usually with no more than 10 stockholders. Direct ownership of million-dollar farms by large, publicly held corporations is negligible and is likely to remain that way, although these corporations often act as contractors. Nonfamily corporations made up less than 1 percent of farms and no more than 7 percent of sales in the last six agricultural censuses, despite the ongoing shift of production to large farms.

Financial Status of the Family Farm

Farming had a very good year in 2004. Total net farm income for the sector was $83 billion, substantially higher than the annual average for the previous 10 years ($55 billion) and the previous peak in 1996 ($69 billion), all measured in constant 2004 dollars. Seventy percent of all farms in 2004 earned a positive net farm income. Only 3 percent of farms were classified as vulnerable (negative net cash farm income with a debt/asset ratio greater than 40 percent). More than half of the vulnerable farms were residential/lifestyle farms, whose operators—by definition—rely on off-farm work for their livelihood.

For the most part, large and very large family farms are viable economic businesses. Their average profit margin and rates of return on assets and equity were all positive, and the large majority of these farms had a positive operating profit margin. Small farms—in contrast—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.

A majority of each small farm group had a positive net farm income, but the average net income for each type of small farm was low compared with large-scale farms. Small farm households typically receive substantial off-farm income. Most off-farm income is from earned sources, from a wage and salary job or self-employment. Off-farm work dates back at least to the 1930s. The shift to full-time off-farm work, however, is more recent.

Because many farm households—particularly those operating small farms—are dual-career and receive a large share of their income from off-farm earnings, macroeconomic and monetary policies affecting the nonfarm economy are important to farm households. Also, a provision of the U.S. tax code allows farmers to write farm losses off against other income (Freshwater and Reimer, 1995, p. 220). This provision is especially important to operators of residential/lifestyle farms who have substantial off-farm earned income. Finally, the status of retirement programs is important to operators of retirement farms and to older operators in other farm types as they approach retirement.

Different Farms, Different Policies

Payments from commodity-related programs and conservation programs go to different types of farms. The distribution of commodity program payments is roughly proportional to the harvested acres of program commodities. As a result, medium-sales small farms and the two types of large-scale farms received 78 percent of commodity-related government payments in 2004. This report does not consider, however, how those payments are distributed for land-renting farm operators between land owners and operators.

In contrast, the Conservation Reserve Program (CRP), which pays the bulk of environmental payments, targets environmentally sensitive land rather than commodity production. As a result, retirement, residential/lifestyle, and low-sales small farms received 62 percent of conservation program payments in 2004. This distribution reflects the large number of farms in these groups, their large landholdings, and their tendency to enroll large shares of their land in the CRP. The program has relatively low labor and capital requirements, which make it attractive to residential/lifestyle farmers, who spend most of their work time off the farm, and to retired or older low-sales farmers, who have scaled back their operations.

A large majority of farms, 61 percent in 2004, do not receive government payments. Nevertheless, these farms—and the households that operate them—may be affected indirectly by government payments' impact on farmland and commodity markets. Some studies find that capitalizing government payments has increased farmland values by 15 to 25 percent in recent years (U.S. Dept. Agr., Office of the Chief Economist, 2003, p. 5). This would increase the net worth of landowing farm households, regardless of whether their farm received government payments. In addition, various analyses indicate that government payments have increased crop production between 1 and 6 percent over time (U.S. Dept. Agr., Office of the Chief Economist, 2003, p. 8). Thus, livestock producers who do not receive government payments may benefit from lower feed prices due to an increased supply of grain.