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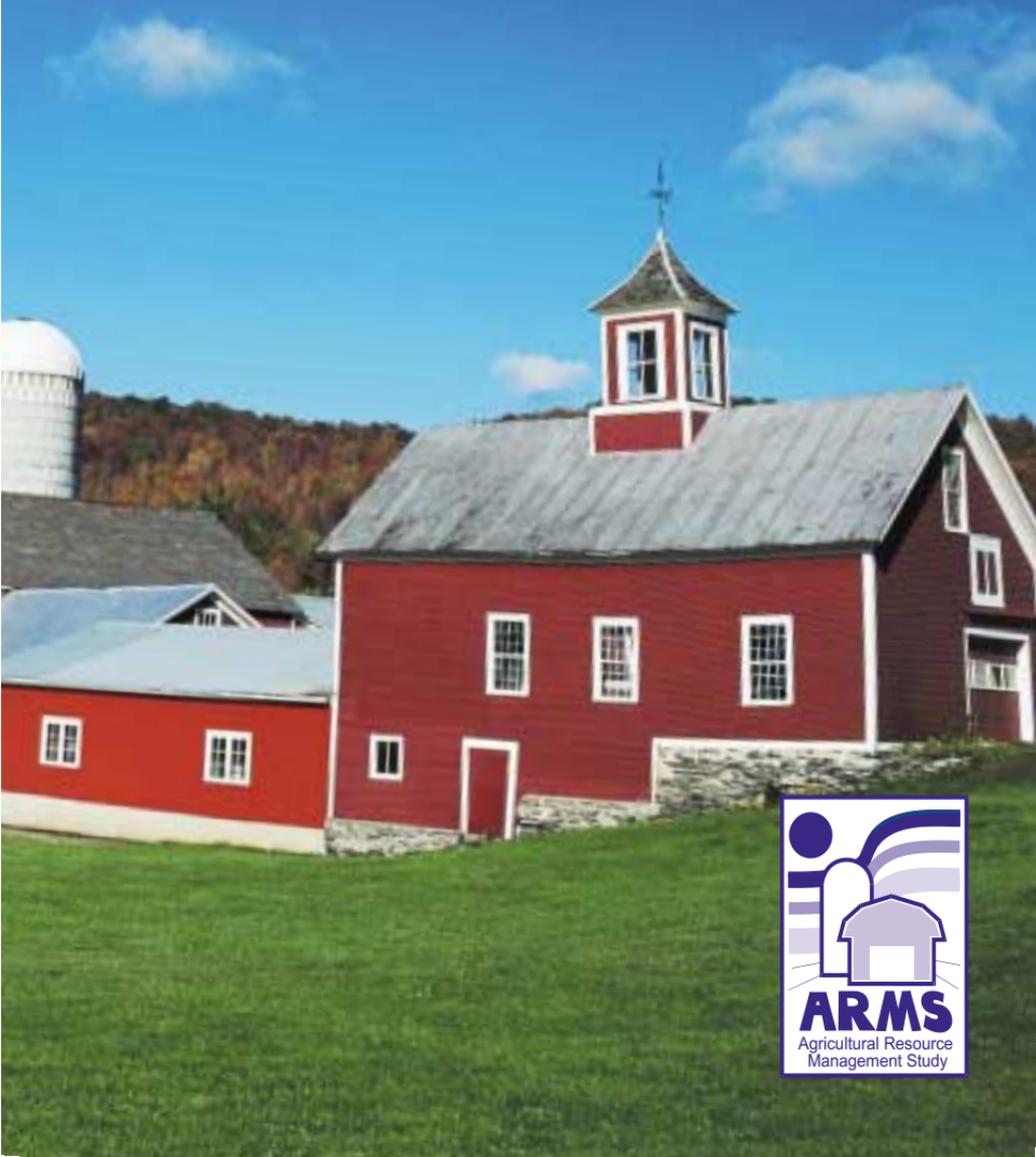


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# America's Diverse Family Farms

## Assorted Sizes, Types, and Situations



# America's Diverse Family Farms

Farms vary widely in size and other characteristics, ranging from very small retirement and residential farms to establishments with sales in the millions. A farm typology developed by the USDA's Economic Research Service (ERS) categorizes farms into fairly homogeneous groups for policy development and evaluation purposes. The typology is based on the occupation of operators and the sales class of farms.

## Defining the Farm Typology Groups

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

**Limited-resource.** Any small farm with gross sales less than \$100,000, total farm assets less than \$150,000, and total operator household income less than \$20,000. Limited-resource farmers may report farming, a nonfarm occupation, or retirement as their major occupation.

**Retirement.** Small farms whose operators report that 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 reporting a nonfarm 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 with operators reporting farming as their major occupation).

**Farming-occupation/high-sales.** Small farms with sales between \$100,000 and \$249,999 whose operators report farming as their major occupation.

### *Other Family Farms*

**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 or cooperatives, as well as farms operated by hired managers.

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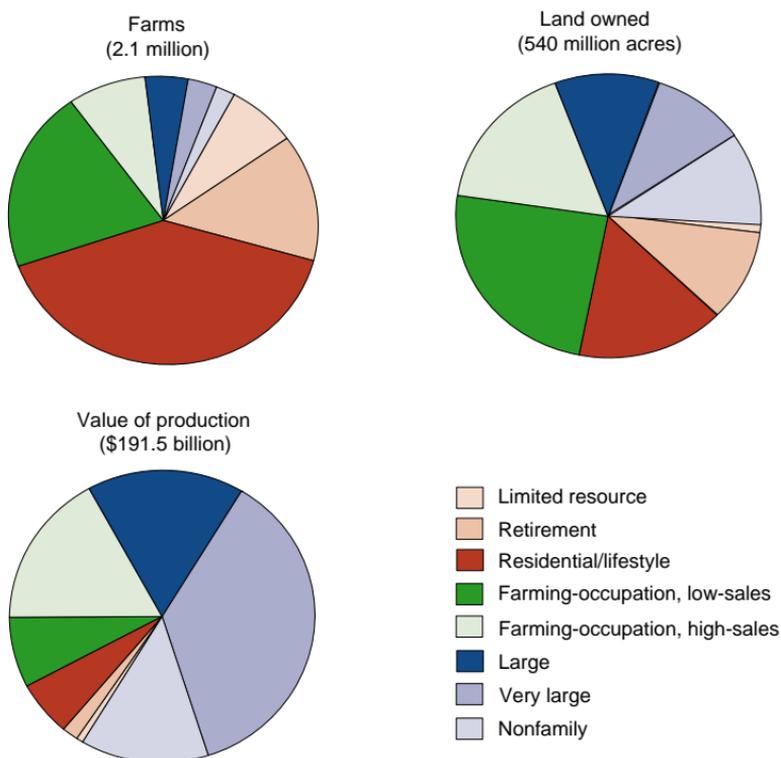
\* The \$250,000 cutoff for small farms was suggested by the National Commission on Small Farms.

## Farms, Land, and Production

Most farms are small, and most farmland is on small farms, but small farms account for less than a third of the value of agricultural production.

- In 1998, 91 percent of farms were small, and small farms accounted for 68 percent of the land owned by farmers.
- Large family farms, very large family farms, and nonfamily farms accounted for 66 percent of production in 1998.

### Share of value of farms, land owned, and value of production by typology group, 1998



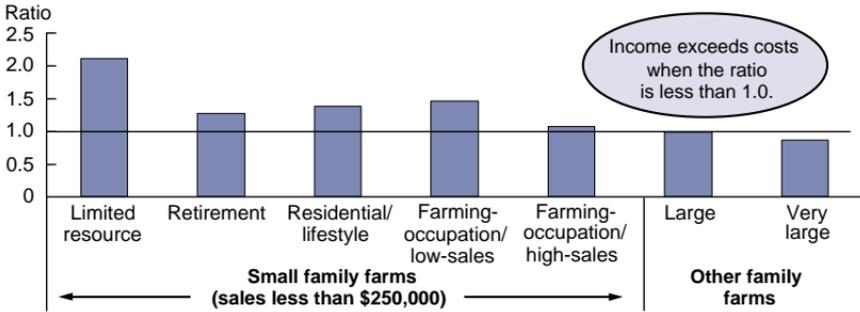
Differences among farm typology groups are illustrated in the following pages using 1998 data from the **Agricultural Resource Management Study**, an annual survey conducted by ERS and by USDA's National Agricultural Statistics Service. Details on these and other comparisons may be found in "Structural and Financial Characteristics of U.S. Farms: 2001 Family Farm Report," available at: [www.ers.usda.gov/publications/aib768](http://www.ers.usda.gov/publications/aib768).

## Financial Returns

Small farms, on average, are less viable businesses than large farms.

- For the most part, large and very large family farms were viable economic businesses in 1998. Each of the groups had an economic cost/output ratio less than one, meaning they generated farm profits.
- Most small-farm typology groups did not report adequate income to cover expenses in 1998. Households operating these farms relied on off-farm income.

### Economic cost/output ratio for family farms, 1998



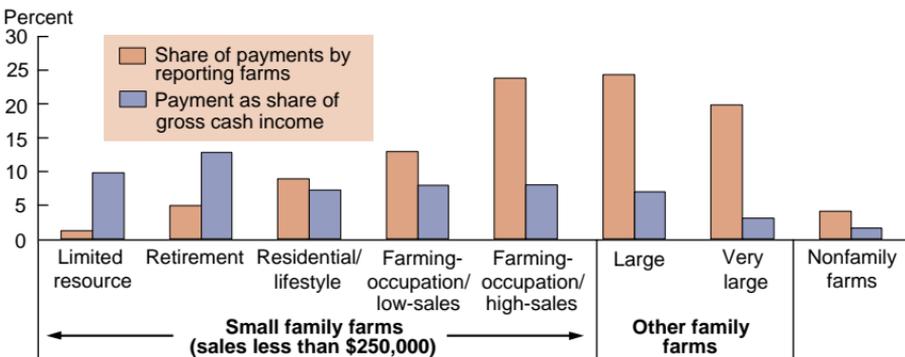
Economic cost/output ratio = (total cash operating expenses + charge for unpaid operators' labor and management)/gross farm income.

## Government Payments

High-sales small farms and large family farms receive a large share of government payments.

- High-sales small farms and large family farms received 48 percent of all government payments in 1998. Farms in these groups are the most likely to specialize in cash grains, which are covered by the commodity programs.
- While limited-resource farms received a small proportion of government payments, those payments have helped keep limited-resource farm businesses afloat.
- Retirement farms, which received more than a fourth of all Conservation Reserve Program payments, also tend to receive significant government support.

### Distribution of government payments, 1998



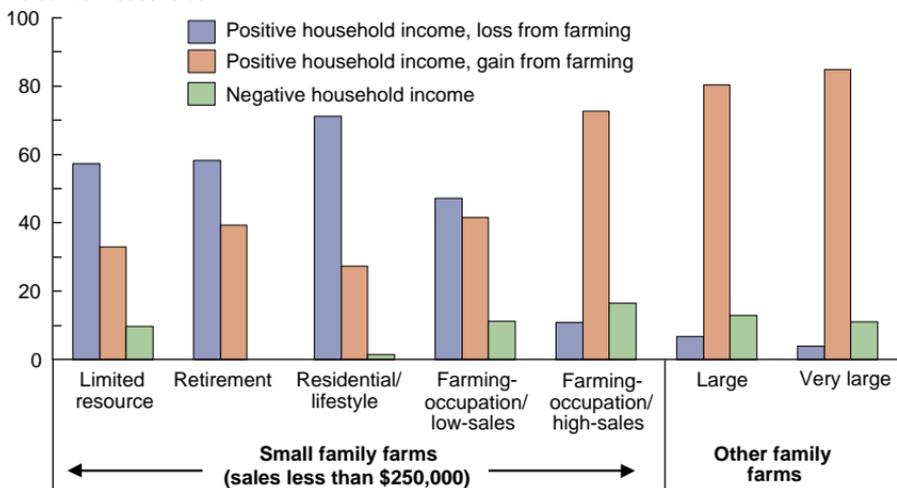
## Farm and Off-Farm Sources of Household Income

Small-farm households rely heavily on off-farm income.

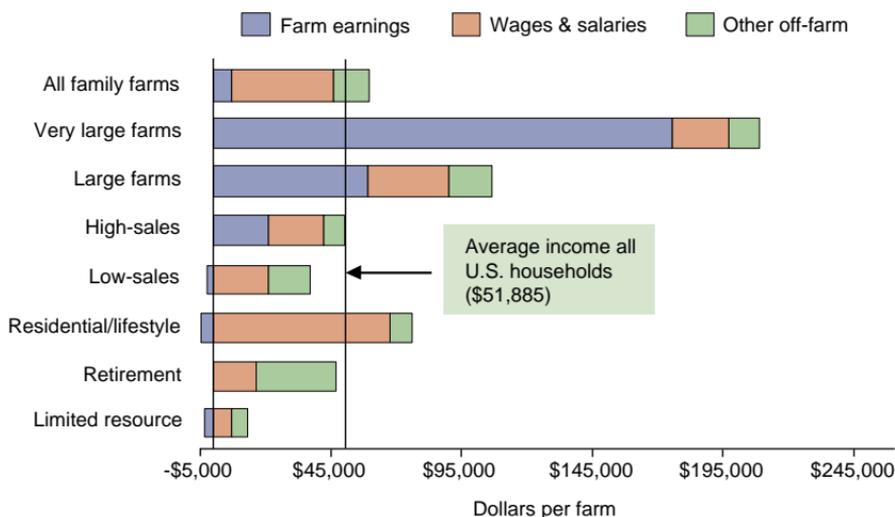
- Most small-farm households have positive household income even when they incur losses from farming.
- Off-farm income contributes substantially to the well-being of small-farm households.

### Off-farm income supported many small-farm households in 1998

Percent of households



### Sources of operator household income by typology group, 1998



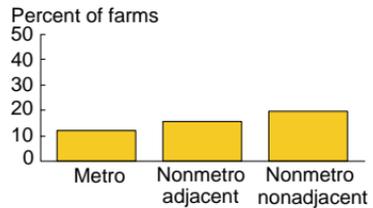
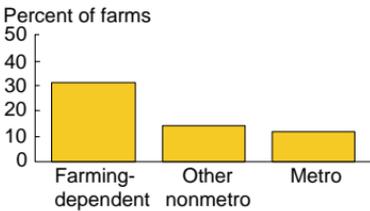
## Location of Family Farms

Farm size seems to increase as population density declines.

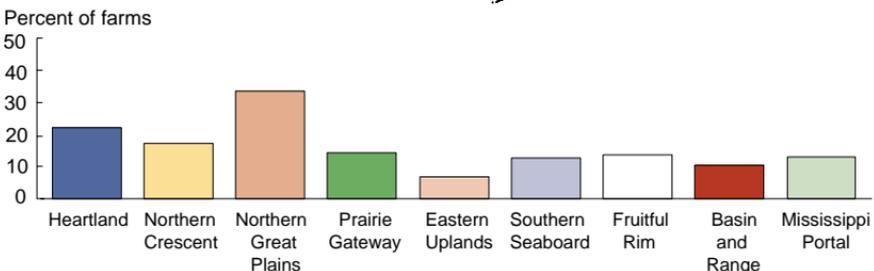
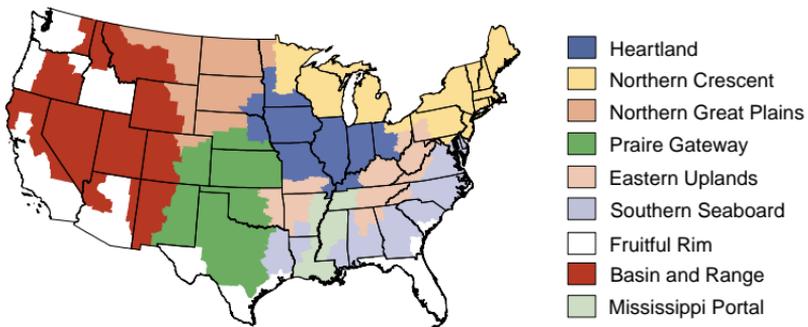
- Only 12 percent of farms in metro areas were family farms with sales of at least \$100,000. At the other extreme, nearly 20 percent of farms in nonmetro areas not adjacent to a metro area were that large.
- Thirty-one percent of all farms were family farms with sales of at least \$100,000 in farming-dependent counties compared with about 14 percent in the remaining nonmetro counties.
- Both the Northern Great Plains and Heartland had a high percentage (34 and 22 percent, respectively) of their farms with sales of \$100,000 or more.
- Fewer off-farm job opportunities combined with any cost economies existing in agricultural production help explain why farms were larger in farming-dependent counties, in the Northern Great Plains and Heartland, and in nonadjacent counties.

### Family farms with sales of \$100,000 or more (high-sales small farms, large family farms, and very large family farms), 1998

#### By county type:



#### By region:

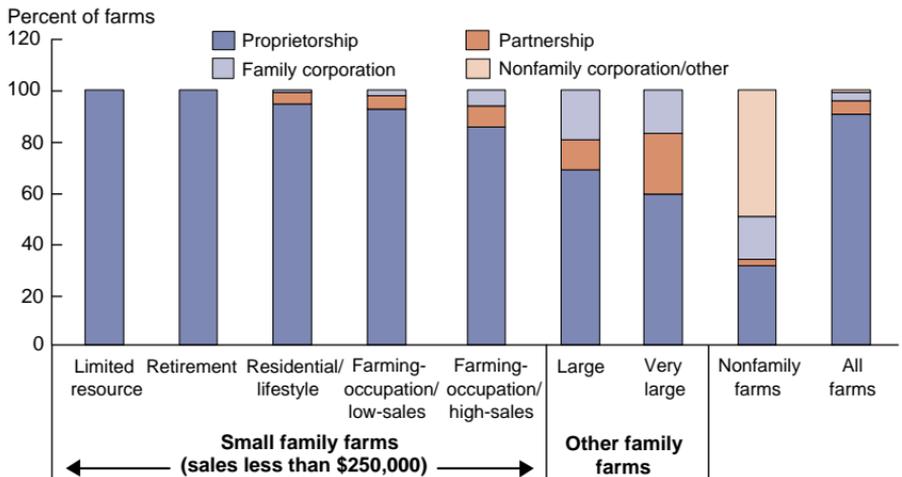


## Business Organization and Arrangements

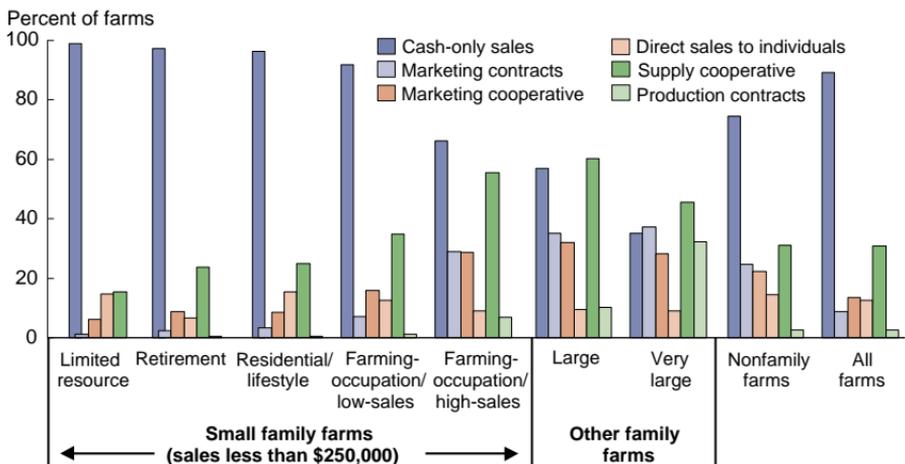
Most family farms are organized as sole proprietorships, although partnerships and other organizations become more prevalent with larger farm size.

- Proprietorships and family partnerships are heavily involved in formal business linkages with contractors and other agents, such as cooperatives.
- Small family farms make less use of production and marketing contracts than do large and very large family farms.
- Top-performing small farms are more likely than their less successful counterparts to use contracting and formal business cooperation.

### Business organization of farms by typology group, 1998



### Selected business arrangements, by typology group, 1998



## Farm Policy and Family Farms

- **There is unlikely to be a “one-size-fits-all” policy for family farms.** The variety of family farm types—what they produce and their differences in characteristics, economic situations, and household and business arrangements—make any one policy instrument appropriate for only a portion of the family farm population.
- **Government payments have been most relevant to high-sales small farms and large family farms.** These farms tend toward specialization in the cash grain crops that have been supported traditionally.
- **The nonfarm economy is critically important to households operating small family farms.** Because small-farm households rely on off-farm work for most of their income, general economic policies, such as tax or economic development policy, can be as important to them as traditional “farm” policy.
- **Government payments and off-farm work help equalize average income for farm and nonfarm households.** Whether there are substitutes or complements for past transition payments, and how these might be distributed among farms, is a central question of farm policy.
- **Small family farms manage and operate the bulk of farm assets, including the soil, water, energy, and natural habitat resources associated with farmland use.** In this regard, policies addressing natural resource quality and conservation can play a major role in the portfolio of policy instruments addressing the American family farm.

*Portions of this report are an update of Agriculture Information Bulletin 759.*

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