



Studying the Divers

Farm classification system developed by ERS to categorize small-scale, large-scale and nonfamily farms.

by **Linda Robbins**

The term “family farm” gets thrown around a lot in today’s vernacular, but each user’s definition of just what comprises a family farm may differ.

In the U.S. Department of Agriculture-Economic Research Service (USDA-ERS) 2010 Economic Information Bulletin No. 67, *America’s Diverse Family Farms*, the agency wanted to take a closer look at what exactly made a farm a “family farm,” since most descriptions and averages concerning farms in the U.S. are based on broad descriptions that don’t address the variations in size and type of farms. The agency developed a classification system that more closely defines the term “family farm.” According to the Bulletin, a family farm is “any farm where the majority of the business is owned by the operator and individuals related to the operator, including relatives who do not live in the operator’s household.”

Since the USDA defines a farm as any place that produced and sold — or would normally have produced and sold — at least \$1,000 of agricultural products during a given year, the farm type classifications for family farms are based mostly on annual gross sales of the farm, major occupation of the operator and family/nonfamily ownership of the farm. All statistics used within the publication to illustrate the

differences among farm types use 2007 data from the Agricultural Resource Management Survey (ARMS), an annual survey conducted by the USDA-ERS and the National Agricultural Statistics Service (NASS).

Small-scale family farms are defined as having sales of less than \$250,000, with further divisions for retirement farms, small farms whose operators report they are retired, although they continue to farm on a small scale; residential/lifestyle farms, whose operators report a major occupation other than farming; and farming-occupation farms, whose operators report farming as their major occupation with two further divisions in the category — low-sales farms that gross less than \$100,000, and medium-sales farms that gross between \$100,000 and \$249,999.

Large-scale family farms are defined as having sales of \$250,000 or more, with two further divisions within the category, large family farms with gross sales between \$250,000 and \$499,999; and very large family farms with gross sales of \$500,000 or more. Nonfamily farms are defined in the 2010 bulletin as “any farm where the operator and persons related to the operator do not own a majority of the business.”

Large-scale family farms account for 84% of production, and family farms of all different sizes account for 98% of farms and 82% of production. That means just 2% of farms are nonfamily owned, and these farms account for just 16% of production.

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Though some are profitable, 45%-75% of small-scale farms in each small farm type had a negative operating profit margin in 2007. Operating profit margin was defined in the Bulletin as 100%

times net farm income plus interest paid, minus charges for operator and unpaid labor and charges for management, divided by gross farm income. Between 17% and 32% of each small farm group had an operating profit margin of at least 20%. A majority of large-scale and very large-scale family farms had operating profit margins of 20% or more.

Farm operators

Multiple-operator farms are defined in the Bulletin as farms that have more than one operator. Multiple-generation farms are multiple-operator farms with a difference of at least 20 years between the ages of the youngest and oldest operators.

Multiple-operator and multiple generation enterprises are most common among large-scale family farms and nonfamily farms. Many large-scale farms support multiple generations on the same farm because many have expanded or diversified to support second or third generations who want to return/stay on the farm.

Assets and production overall

America’s Diverse Family Farms discloses that 88% of farms are small-scale farms, with these farms accounting for 64% of farm assets, including 63% of the land owned by farms.





iversity of Family Farms

The Bulletin found that 73% of retirement farms had principal farm operators at least 65 years old — as one might expect — but 28% of principal farm operators overall were classified as 65 years or older, compared to 8% of self-employed workers in nonagricultural business. At 33%, low-sales farms were second to retirement farms in the percentage of older operators.

The bulletin suggests that “the advanced age of farm operators is understandable, given that the farm is the home for most farmers and farmers can phase out of farming gradually.” This means that although older operators could be classified as principal operators, there could be second and third generations providing more labor and taking on increased responsibilities as the principal operator ages and phases out of active participation in the farming enterprise.

Older operators’ 28% share of U.S. farms, along with their 30% share of U.S. farm assets could suggest a major loss of farmers and a scramble to find younger operators to replace them. However, the Bulletin suggests that the future of farming is less at risk when considering the types of farms most older farmers operate.

Since most older farmers operate retirement or residential/lifestyle farms, older operators actually account for less than 2% of production and have just a 14% share of farm assets. They often rent farmland to other operators while still maintaining residence on the farm. The Bulletin asserts that “older operators’ assets that must be absorbed to maintain production amount to only 12% of total U.S. farm assets — and these assets are found on farming-operation, large-scale and nonfamily farms run by older farmers as single-generation operations with no replacement operator in place.”

Household income

The median income of all U.S. households, according to the Bulletin, is \$50,200. “Only two types of farm households — those operating retirement or low-sales farms — received a median household income substantially below the median for all U.S. households,” the Bulletin stated. The total average income for low-sales small family farms was \$44,488.

Large-scale and very large-scale farms reported household incomes substantially higher than the U.S. median income, with large-scale family farms averaging \$109,639, and very large-scale family farms averaging \$268,227, as multiple-operator and multiple-generation farms would need to do to support more than one family unit. On the whole, an average of all farm operator households reported an income slightly above the median. The Bulletin reported that off-farm work provides the primary source of income for most types of farm households.

Farm policies and family farms

“Farming is still an industry of family business,” the Bulletin states. “Ninety-eight percent of farms are family farms, and they account for 82% of farm production.” While most U.S. farms are small-scale farms and account for the bulk of farm assets, including farmland, most farm production comes from large-scale and nonfamily farms.

The nonfarm economy is critically important to small-scale family farms because these households depend on off-farm work for most of their income. This means that general economic policies, such as tax or economic developments policy, is as important to these households as traditional farm policy.

Even though 28% of U.S. farms have a principal operator at least 65 years old, most of these operators are on retirement

or residential/lifestyle farms that produce just 2% of U.S. farm output. Additionally, the Bulletin reports that many larger-scale, more commercially oriented farms with older principal operators are multiple-generation farms, with a younger replacement operator in place.

The Bulletin stated that commodity program payments largely went to medium-sales, large- and very large-scale farms, with most working-land conservation payments to large-scale farms, and land-retirement payments to retirement, residential/lifestyle and low-sales farms. However, the Bulletin noted that most farms do not receive government payments and were not directly affected by them.

To see the 2010 edition of *American’s Diverse Family Farms* in downloadable pdf form, visit www.ers.usda.gov/publications/eib67/.

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