Family Farming in the United States

Most U.S. farms still rely primarily on labor provided by the farm family, and most large farms, which rely heavily on nonfamily labor, are still organized as family businesses.

*by **James MacDonald,** Economic Research Service*

The United Nations (UN) has designated 2014 as the "International Year of Family Farming" to highlight the potential family farmers have to help eradicate hunger and preserve natural resources. According to the UN's Food and Agriculture Organization (FAO), the lead UN agency on the topic, "the International Year aims to raise the profile of family and smallholder farming by focusing world attention on its significant role in alleviating hunger and poverty, providing food security and nutrition, improving livelihoods, managing natural resources, protecting the environment, and achieving sustainable development, in particular in rural areas."

The FAO's primary focus is on smallholder farms — usually of 5 acres or less — in rural areas of Africa, Asia, Latin America and the Near East, but the International Year emphasizes all family farms. The UN defines family farms as those managed and operated by a family, with the family providing most of the farm's labor. The UN estimates that there are 500 million family farms around the world, representing up to 80% of all farms in many countries.

Farms in the United States tend to be much larger and are operated differently than smallholder family farms in developing countries. Large U.S. farms are frequently run by extended families, with multiple owner-managers specializing in different parts of the farm business. Many large farms produce only a few commodities and often specialize in particular stages of commodity production.

They often purchase the services of outside firms to handle some farm tasks (such as field preparation, chemical application or harvest), relying on those providers for expertise, labor and equipment. They may also rely on hired and contract labor in addition to the labor provided by the operators and their families.

Nevertheless, most U.S. farms still rely primarily on labor provided by the farm family, and most large farms, which rely

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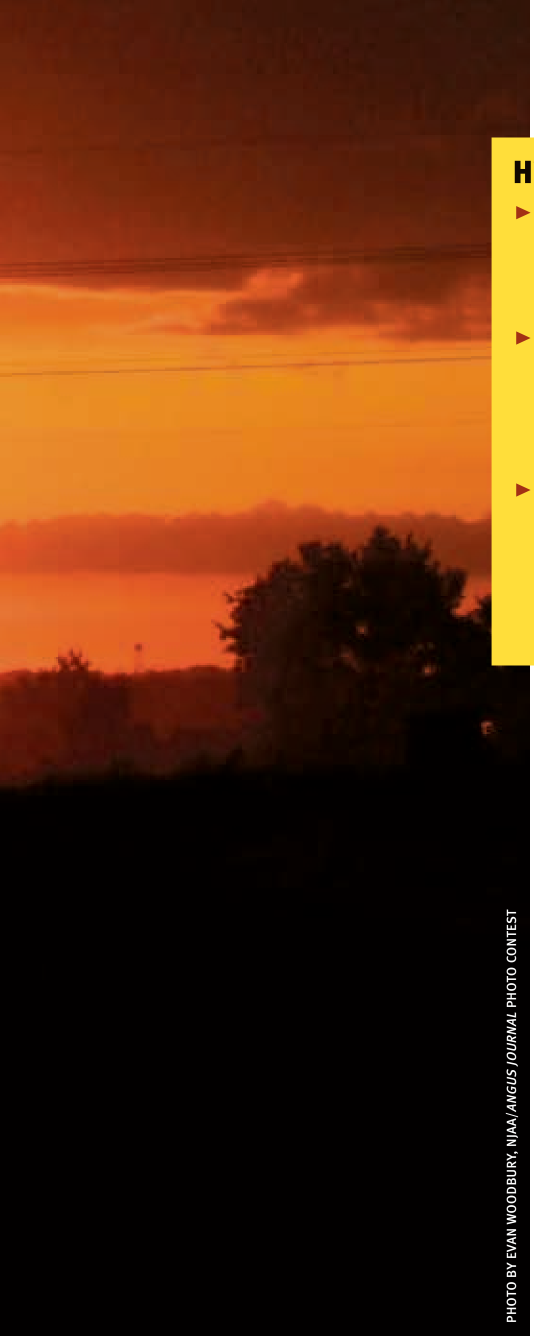

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Highlights:

- The United Nations (UN) has designated 2014 as the "International Year of Family Farming" with a primary focus on small farms that depend on a family for most labor.
- Farms in the United States are often much larger than the farms in developing countries that are the primary focus of the UN's efforts, but farms relying primarily on family labor still account for nearly half of U.S. farm output.
- Larger U.S. farms, which often rely extensively on hired and contract labor, still tend to be family-operated businesses. Family organization has distinct advantages for most agricultural activities in the United States and around the world.

heavily on nonfamily labor, are still organized as family businesses. Family organization remains an essential feature of agriculture in the United States, just as it does throughout much of the rest of the world.

Family farms in the United States

Family-run businesses dominate U.S. agricultural production. USDA's Economic Research Service (ERS) defines family farms as those whose principal operator and people related to the principal operator by blood or marriage own most of the farm business. The principal operator is the person who is responsible for the on-site, day-to-day decisions of the farm or ranch business.

The ERS definition focuses on ownership and control of the farm business by the family operating the farm and not on farm size or the labor provided by the farm family. Under the ERS definition, family farms represent 97.6% of all U.S. farms and are responsible for 85% of U.S. farm production.

Most, but not all, of these farms also rely primarily on family labor. To more closely approximate the FAO's concept of a family farm, researchers used two approaches to measure the share of labor provided by U.S. farm families. The first measures the share of the farm's employed labor provided by the principal operator and his or her spouse.

Using this approach, 87.1% of U.S. farms (accounting for 57.6% of U.S. farm production) are family farms that rely primarily on the principal operator and spouse. Other farm labor is provided by hired labor and by other farm operators and their families; many large farms have multiple operators, some of whom may not be related to the principal operator.

The second approach to measuring the share of labor provided by U.S. farm families requires the principal operator and his or her spouse to provide most of the labor used on the farm, including that provided by contract labor firms. Farms can contract with other businesses that provide workers to perform specific tasks — often harvesting — over a specified time period. These service firms hire workers themselves and provide contract labor services to the farm sector with workers who are not employees of the farm.

The USDA farm survey that underlies this analysis does not collect contract labor hours; instead, researchers estimated hours by dividing the reported contract labor expenses by the average wage rate for hired farm labor in the farm's locality. Using this approach, which most closely matches the FAO definition, 86.1% of U.S. farms (accounting for 47.4% of U.S. farm production) are family farms.

Some family-owned and -operated farms are quite large: 42,400 had sales of at least $1 million in 2011, and more than 3,800 had sales of at least $5 million. Businesses of this size are not unusual in the U.S. economy, where 1.37 million U.S. businesses, or one for every 225 people, had sales of at least $1 million in 2010, according to the Internal Revenue Service. Large U.S. family farms

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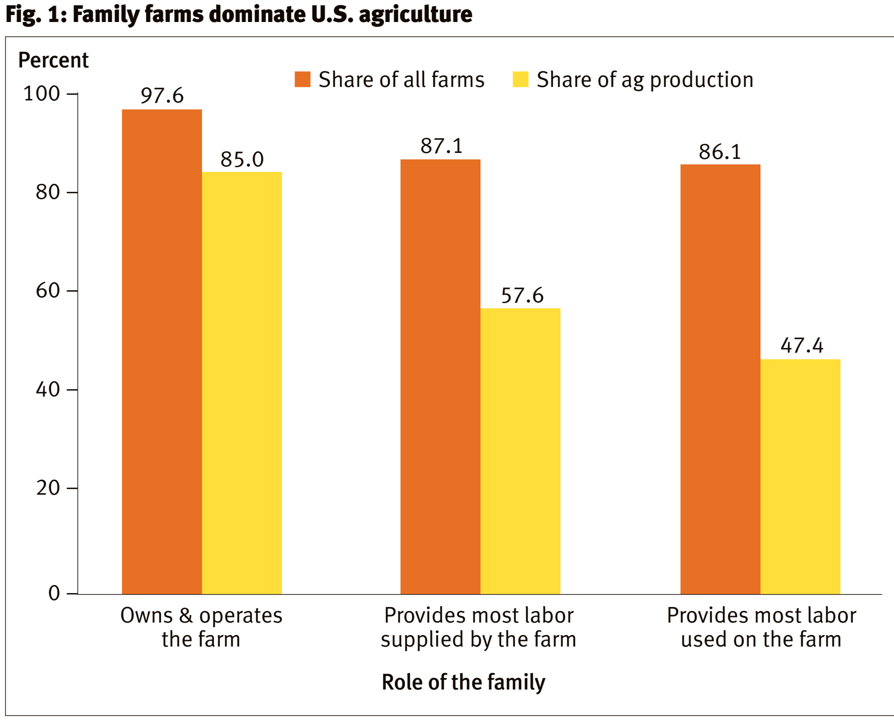
Fig. 1: Family farms dominate U.S. agriculture



Source: USDA ERS, using data from 2011 Agricultural Resource Management Survey, Version 1.

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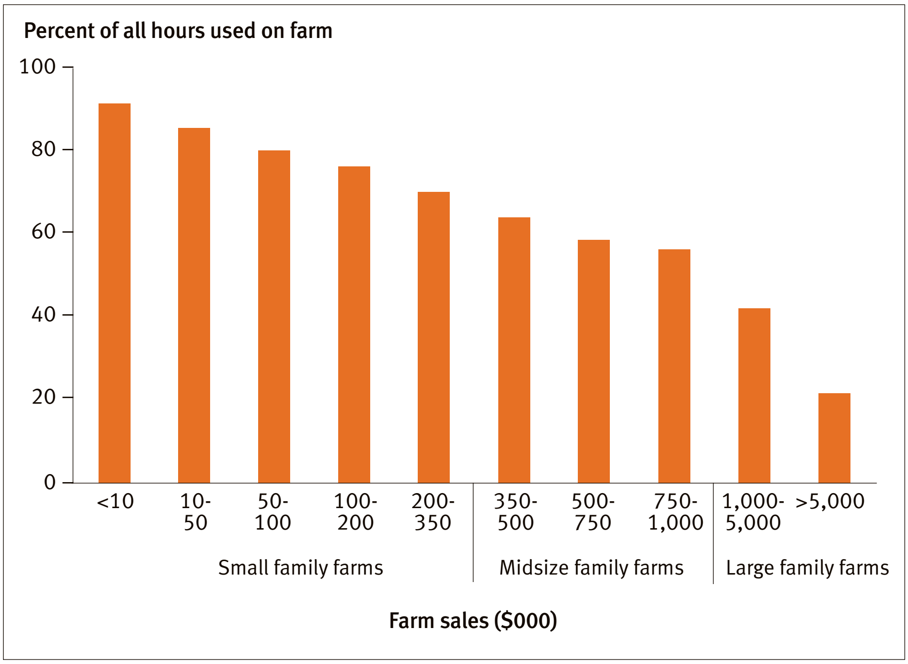
are, not surprisingly, more likely to rely on partners and on hired and contract labor than smaller farms, so that the share of labor provided by the principal operator and spouse falls as farms get larger.

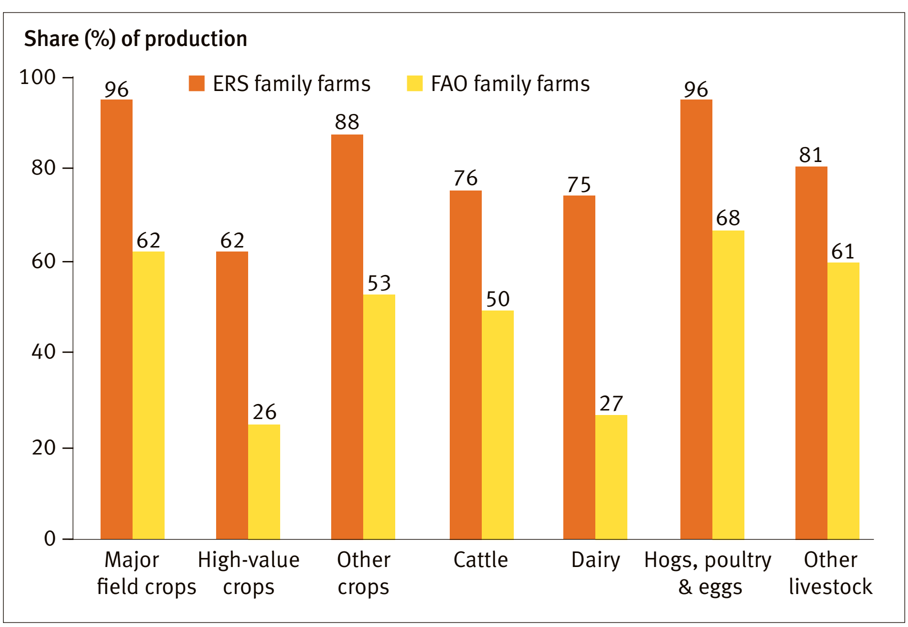
Nevertheless, the share of hours contributed by the principal operator and spouse remains above 50%, on average, until farm sales reach $1 million or more. That share remains at an average of 42% for farms with $1-$5 million in sales, but falls to 21% among farms with at least $5 million in sales. Even in the United States, farms with most labor provided by the farm family account for the majority of farms and nearly half of farm production.

Fig. 2: Principal operators and their spouses provide most labor used on small and midsized family farms



Source: USDA ERS, using data from 2011 Agricultural Resource Management Survey, Version 1.

Fig. 3: Family farms dominate major field crops, and 'hogs, poultry and eggs'; weakest in high-value crops



Note: Major field crops are corn, cotton, soybeans and wheat; high-value crops are fruits, nursery and vegetables.

Source: USDA ERS, using data from 2011 Agricultural Resource Management Survey, Version 1.

Family farms most prevalent in field crops

Farms that are owned and operated by families account for most production in all major commodity groups; however, their relative production within those groups varies. Family farms accounted for 96% of production in major field crops (corn, cotton, soybeans and wheat) and in hogs, poultry and eggs; however, they contributed a lower share in high-value crops (fruits, vegetables and nurseries) where they accounted for 62% of production, and in dairy, with 75% of production. Production in each of those categories is concentrated in very large farms, where nonfamily partnerships and corporations are more common.

Not surprisingly, family farm production shares fall in every major commodity category when focusing on the share of farms where the principal operator and spouse provide most of the labor used on the farm (the FAO standard). The share of family farms using the FAO concept falls the most in commodity categories in which production is dominated by very large farms that rely heavily on hired and contract labor — again, high-value crops and dairy. For example, 48% of dairy production occurs on family-owned and -operated farms that rely primarily on labor contributed by people other than the principal operator and spouse.

Nonfamily farms

Most U.S. farms are family farms under the FAO definition; 86.1% of farms, accounting for 47.4% of U.S. farm production, are owned and operated by a family, with the principal operator and spouse providing most of the labor. Another 11.5% of U.S. farms, with 38.4% of production, are owned and operated by a family, but rely extensively on labor provided by hired workers, contract workers and other operators and their families — meaning they are family farms under the ERS but not the FAO definition. The remaining U.S. farms — those that are not family-owned and operated — number about 53,000, or 2.4% of all U.S. farms, and account for 15% of U.S. farm production. These are nonfamily farms under the ERS definition.

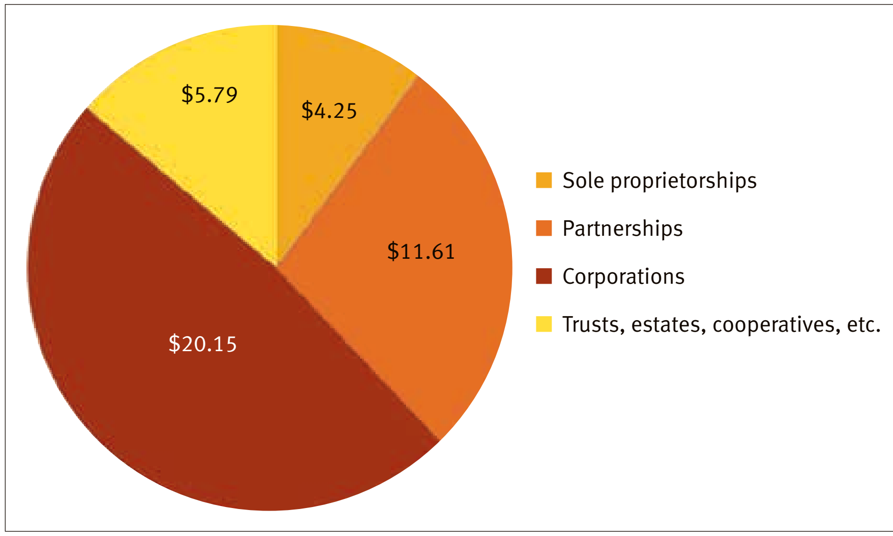
There are many kinds of nonfamily farms. Few are large corporations with dispersed ownership and multiple levels of management. That organizational form, so common in the broader U.S. economy, is rare in agriculture. Like family farms, most nonfamily farms are small — half have less than $35,000 in sales — but most nonfamily farm production comes from the 10% that have annual sales of at least $1 million. Those farms collectively accounted for $42 billion in agricultural production in 2011, or 93% of all U.S. nonfamily farm production.

These large nonfamily farms are also a diverse group. Partnerships, with small numbers of unrelated partners, account for 28% of large nonfamily farm production, while another 10% is from farms organized as sole proprietorships (one owner who did not operate the farm).

Just less than half of large nonfamily farm production — $20 billion — came from nonfamily farms organized as corporations. However, most of these corporate farms have no more than 10 shareholders, and are thus likely to be tightly held partnerships that have incorporated for tax and management purposes.

Some large corporations with dispersed stockholdings are active in farming, but not many. Most large diversified corporations that exercise influence in agriculture do so through their role as input suppliers, commodity purchasers and coordinators of production. Not only is U.S. agriculture dominated by family farms, but production by nonfamily farms is dominated by organizations with a small and tightly knit group of owners.

Fig. 4: Large nonfamily farms come in four major forms



Note: Dollar figures are values of agricultural production in billions. Large nonfamily farms, those with sales of at least $1 million, account for 93% of the value of production of all nonfamily farms.

Source: USDA ERS, using data from 2011 Agricultural Resource Management Survey, Version 1.

Why do family farms dominate agriculture?

Family farms account for most production in most agricultural commodities in developing countries. In the United States and in other industrialized countries, where farms are much larger than the smallholder farms so common in developing countries, family farms still dominate agriculture, even as large and diversified corporations dominate many other industries. Most nonfamily farms in the United States, even the very large ones, look like family businesses in the sense that decision-making is concentrated in a small group of people with long ties to one another. What is it about agriculture that lends itself to family businesses?

Technology provides one part of the answer. Most agricultural production is not subject to extensive economies of scale. For many crop and livestock commodities, costs of production decline as herd size or acreage increases, but the potential cost reductions are fully realized at still-modest sizes. Even in the United States, where farms can be capital-intensive businesses with significant investments in equipment and structures, farms can realize available scale economies with several million dollars in assets and not with the hundreds of millions that might be required in other industries.

The lack of extensive scale economies favors family organization. Agricultural production also usually requires localized knowledge, flexibility and the ability to quickly adapt to changes in the production environment; those are all strengths of family businesses. Agricultural production also is highly seasonal work, and families have been able to adjust their labor to the seasonality of farm production and to reallocate their labor to other tasks on and off the farm to accommodate unexpected variability in agricultural production needs.

Finally, most agricultural production still requires an intimate knowledge of local soil, nutrient, pest and weather conditions to effectively manage cropping operations. Similarly, effective animal husbandry decisions still depend on close observation of animals and knowledge of animal behavior in the specific environment of the farm. Farmers have to be able to adapt quickly as sudden changes in weather, pest populations and commodity markets demand quick and informed decisions.

Farm families have localized on-farm expertise, often passed down through generations, and they have the incentives, as business owners, to make those decisions more effectively than can generally be done by salaried managers. Such factors have undermined previous attempts to introduce large complex organizations to U.S. agriculture, and in the United States and elsewhere, favor the localized knowledge, quick responsiveness, and incentives for effort and responsibility built into family farms.

The International Year of Family Farming highlights the role that family farmers can play in helping to eradicate hunger and preserve natural resources. Family farming is not, however, unique to small farms in less-developed countries, nor is it a technologically backward sector. Most large commercial farms — in the United States and in many other countries — are organized as family farms because the flexibility and ability to adapt to changed circumstances that is characteristic of family organizations make them into low-cost and efficient producers and innovators.

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Editor's Note: *This article provided by the ERS and first published in* Amber Waves, *is drawn from:*

- ►Exploring Alternative Farm Definitions: Implications for Agricultural Statistics and Program Eligibility, *by Erik O'Donoghue, Robert Hoppe, David Banker and Penni Korb, USDA ERS, March 2009.*
- ►Million-Dollar Farms in the New Century, *by Robert Hoppe, Penni Korb and David Banker, USDA ERS, December 2008.*