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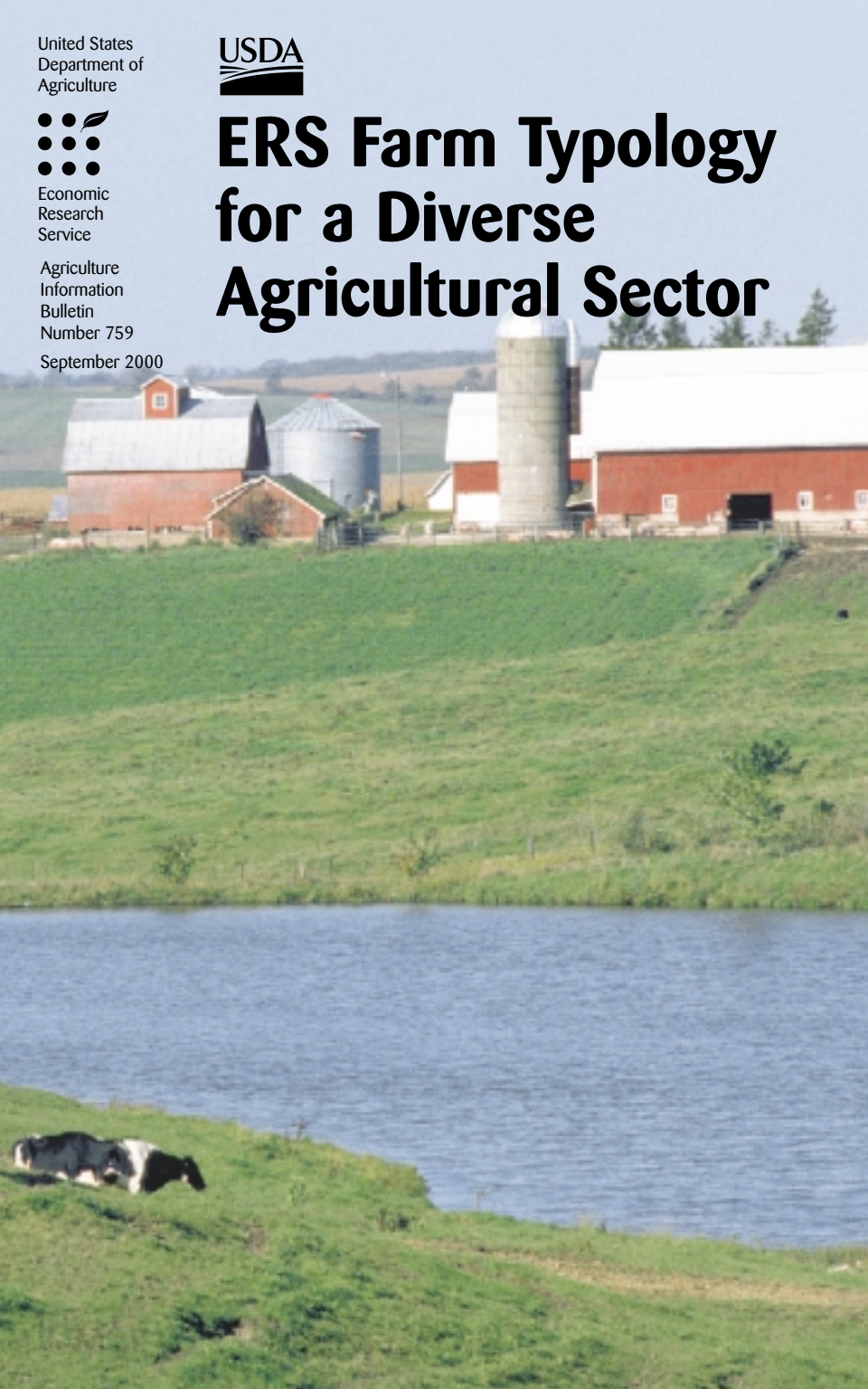
ERS Farm Typology for a Diverse Agricultural Sector



ERS Farm Typology for a Diverse Agricultural Sector

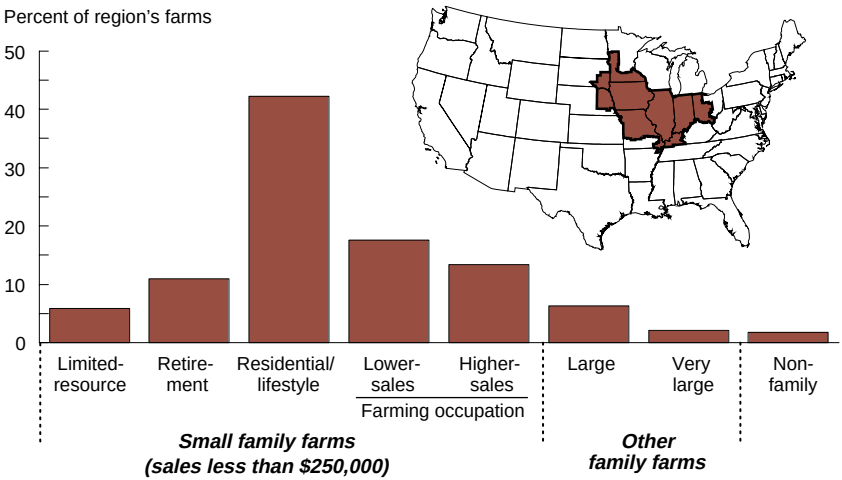
Farms vary widely in size and other characteristics, ranging from very small retirement and residential farms to establishments with sales in the millions. A farm typology developed by the Economic Research Service (ERS) categorizes farms into more homogeneous groups than classifications based on sales volume alone, producing a more effective policy development tool.

The typology is based on the occupation of operators and the sales class of farms. In the case of "limited-resource" farmers, the asset base and total household income—as well as sales—are low. Compared with classification by sales alone, the ERS typology is much more reflective of operators' expectations from farming, stage in the life cycle, and dependence on agriculture.

The typology identifies five groups of small family farms (sales less than $250,000): limited-resource, retirement, residential/lifestyle, farming occupation/lower-sales, and farming occupation/higher-sales. To cover the remaining farms, the typology identifies large family farms, very large family farms, and non-family farms.

The groups differ in their contribution to agricultural production, their product specialization, program participation, and dependence on farm income.

The Heartland illustrates farm diversity



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 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/lower-sales. Small farms with sales less than $100,000 whose operators report farming as their major occupation (excludes limited-resource farms whose operators report farming as their major occupation).

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

Other 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. 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.

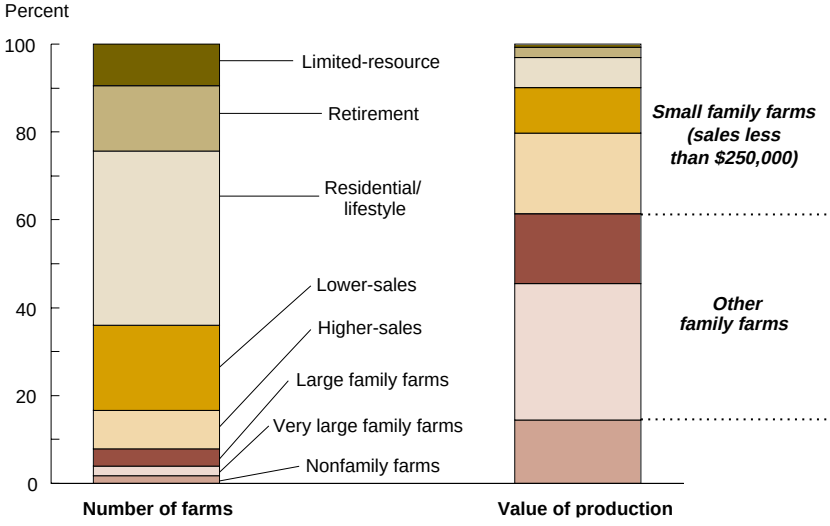
Differences among farm typology groups (e.g., product specialization, program participation) are illustrated in the following pages using 1997 data from the **Agricultural Resource Management Study**. The ARMS is an annual survey conducted by ERS and by USDA's National Agricultural Statistics Service.

Share of Farms, Assets, and Production

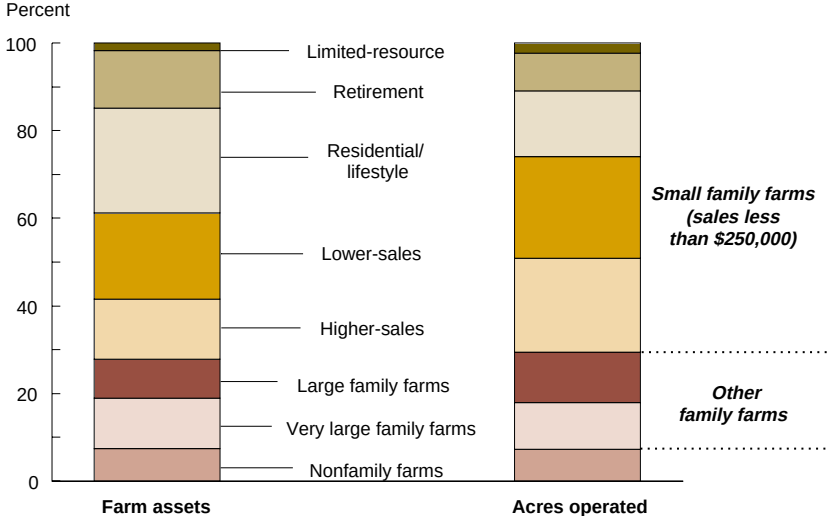
Most farms are small, but small farms account for a modest share of production.

- Ninety-two percent of farms are small, and small farms account for about 70 percent of the assets and land involved in farming.
- Large family farms, very large family farms, and nonfamily farms account for 61 percent of production.

Share of total farms and of production



Share of farm assets and of acres operated

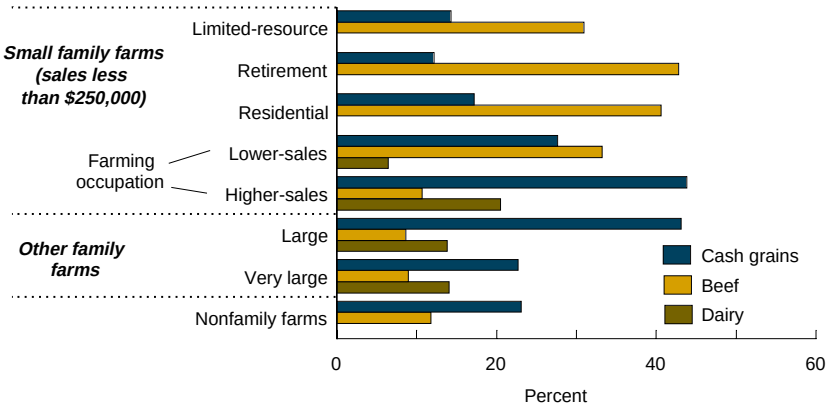


Specialization and Diversification

Specialization and diversification vary among the farm typology groups.

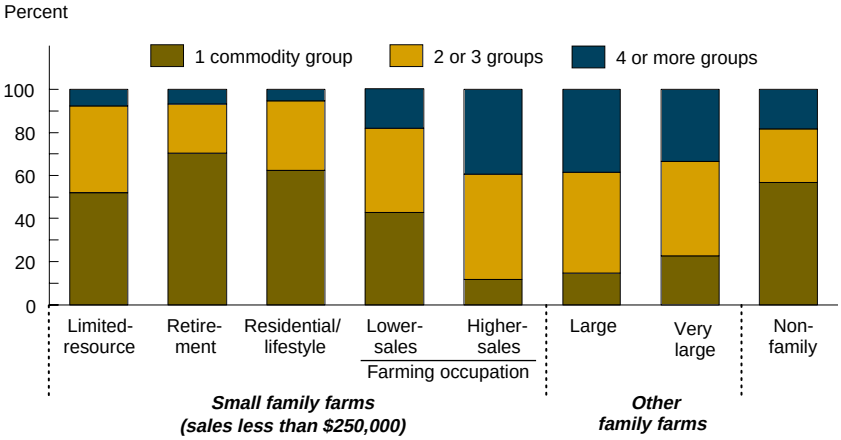
- Many small family farms specialize in beef cattle, which often have low labor requirements compatible with off-farm work and retirement.
- In contrast, two commodity groups—cash grains and dairy—account for nearly two-thirds of all higher-sales small farms and over half of large family farms.
- Many small farms specialize in a single commodity, but higher-sales small farms, large family farms, and very large family farms tend to produce multiple commodities.

Share of farms specializing in cash grains, beef, and dairy



Commodity accounts for at least half the farm's value of production. Estimates of dairy farms were suppressed for selected groups, due to insufficient observations.

Share of farms, by number of commodities produced



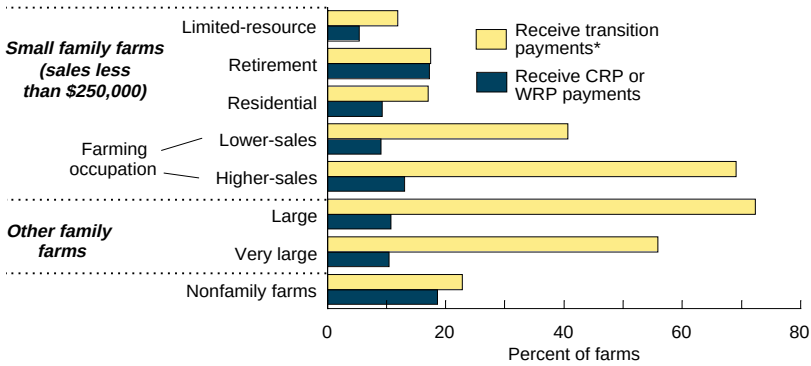
Based on 26 commodity groups.

Government Program Participation

All farm typology groups participate in government farm programs to some extent, but the relative importance of the programs varies.

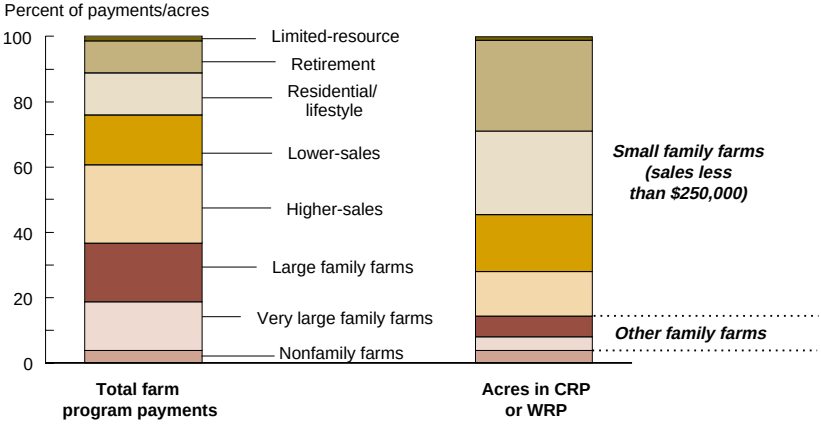
- Transition payments are most important to higher-sales small farms and large family farms.
- The largest portion of government payments goes to higher-sales small farms.
- Retirement and residential/lifestyle farms account for half of the acreage in the Conservation Reserve and Wetlands Reserve Programs (CRP and WRP).

Share of farms receiving transition payments and payments from the Conservation Reserve or Wetlands Reserve Program



* Payments made to commodity-program participants under 1996 Farm Act.

Distribution of total farm program payments and of conservation program acreage



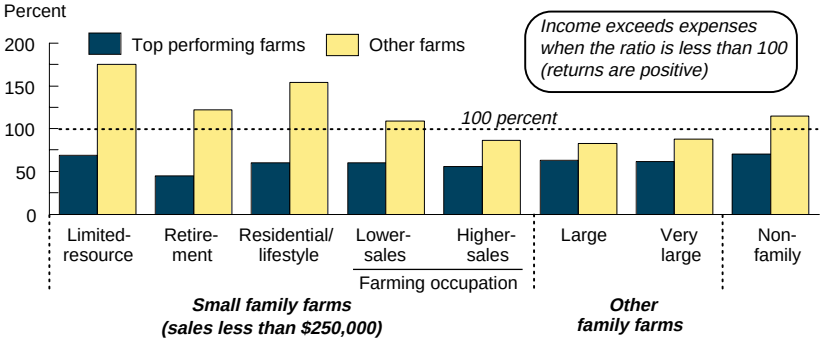
Farm program payments include payments from the Conservation Reserve and Wetlands Reserve Programs, transition payments, agricultural disaster payments, Environmental Quality Incentive Program payments, and state and local program payments.

Cost Control

"Top performing" farms are defined as the top 25 percent of each typology group, ranked by returns to operators' labor and management.

- Top performers in each group control expenses, resulting in a 30- to 50-percent gross cash margin (the expense ratio subtracted from 100 percent).
- Regardless of group, there are farms earning positive returns.

Operator expense ratio for top performing farms



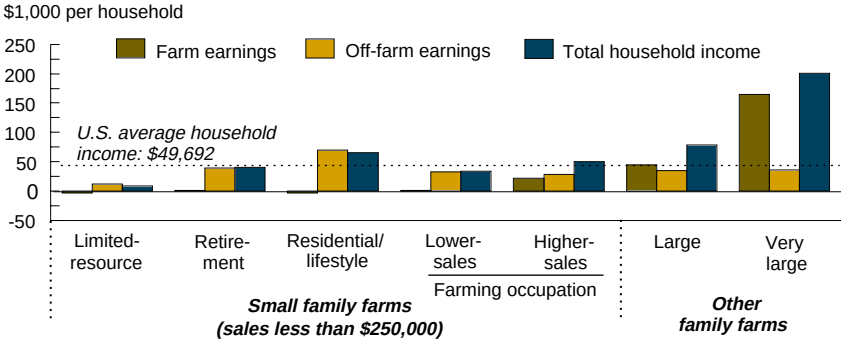
The operating expense ratio measures percentage of gross cash income absorbed by cash operating expenses.

Household Income

Dependence on farm income varies by farm size.

- Households operating very large farms, large farms, and higher-sales small farms receive a substantial share of their income from farming.
- The remaining small farm households derive virtually all income from off-farm sources.

Average operator household income, by source



Policy Implications Revealed by the Farm Typology

- **Production is concentrated among large family farms, very large family farms, and nonfamily farms.** The nation relies on larger farms for most of its food and fiber, despite the high number of small farms.
- **As custodians and managers of the bulk of farm assets—including land—small farms play a major role in natural resource and environmental policy.** Retirement and residential/lifestyle farms account for half the land in the Conservation Reserve Program and Wetlands Reserve Program.
- **Transition payments are most relevant to higher-sales small farms and large family farms.** These farms tend toward specialization in cash grains, which are covered by transition payments.
- **Households operating large and very large farms rely heavily on farm income.** Although these households receive substantial off-farm income (on average), they derive most of their income from farming.
- **The nonfarm economy is critically important to households operating small farms.** Except for the higher-sales group, most households with small farms rely on off-farm sources for virtually all their income.

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