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Structural Change In the U.S. Farm Sector, 1974-87

13th Annual Family Farm Report to Congress

Donn A. Reimund and Fred Gale

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Abstract

The trend toward fewer but larger farms continued during the turbulent 1970's and 1980's, but more slowly than during the previous two decades. Farm business returns and farm household income are comparable with their nonfarm counterparts. Farm households are wealthier than the average American household, but farm businesses are much smaller than businesses in other industries. The diversity of U.S. farming complicates a broader, more general description of the sector and of the well-being of farming households.

Keywords: Family farms, farm structure, household income, assets

Preface

This publication is based on the 13th annual report to the Congress on the status of family farms. These reports have been submitted to Congress in accordance with the Food and Agriculture Act of 1977 as amended.

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Summary

The trend toward fewer but larger farms that had accelerated during the 1950's and 1960's slowed during the 1970's and 1980's. Off-farm income accounted for almost half of all farm household income in 1987, up from just over a third 13 years earlier. The share of all farm businesses that are organized as family-held corporations increased moderately during the latter period. Among U.S. firms, farms are about 25 percent of all sole proprietorships, less than 10 percent of all partnerships, and only 2 percent of all corporations.

Change in the U.S. farming sector during the 1970's and 1980's has featured the following:

- A slower decline in farm numbers and slower increase in farm size.
- A continuing decline in the number and proportion of farms with sales of $10,000 to $99,999, but a constant proportion of smaller farms and an increasing proportion and number of larger farms. These changes in the distribution of farms among sales classes were observed with both nominal and constant dollar measures, although the magnitude of the changes was smaller when measured in constant dollars.
- A moderate increase in the proportion of family-held corporate farms and a constant proportion of farms operated as sole proprietorships. Most corporate farms are family-held corporations. The proportion of farms and production accounted for by nonfamily corporations remained unchanged.

If these trends continue, future shifts in the farm sector will continue to be less dramatic than during the 1950's and 1960's.

Short-term economic events during 1974-87 played a small, but important, role in shaping the farm sector. In the 1970's, good times in farming stabilized farm numbers; in fact, small increases in some years reflected the entry of new farmers enticed by favorable economic conditions. While the movement of labor out of farming caused by long-term trends in mechanization and technology was slowing, many of the new farmers were young people born during the baby boom years of the 1950's.

The decline in farm numbers accelerated during the 1980's, as the recession in farming strained the financial status of many farmers. While higher than during the 1970's, the decline in farms was slower than during the 1950's and early 1960's. Only limited information exists about how many farmers voluntarily left or were forced out during this period, but research suggests that about half of those leaving did so because of financial stress. The decline in farm numbers during the 1980's appears to be mostly due to reduced entry into farming rather than to increased farm exits. Economic conditions in the sector made farming less attractive financially.

Describing the typical American farm is difficult. Commercial U.S. agriculture is specialized along commodity lines, and each commodity subsector has its own features. For example, the cash grain subsector is mostly full-time farmers who independently operate moderate-sized farms, buying inputs and selling their products on the open market. In this subsector, economic returns are significantly influenced by Federal farm support programs. Most beef cattle farms, excluding feed lots, are small part-time operations conducted on land that is generally unsuitable for crop production. These small cattle farms account for a large part of total cattle production. The poultry industry represents large-scale, vertically integrated agriculture where the production through marketing processes are highly coordinated. Poultry farmers generally produce under contracts with large processors. Thus, the farm sector can be viewed as a collection of many different industries.

A significant change in the farm sector during 1974-87 was the substantial increase in off-farm work by farm operators. During this period, the proportion of all farm operators whose principal occupation was something other than farming rose from 37 to 46 percent. Off-farm income now provides over half of farm operator household income. Farmers overall, and particularly those with smaller operations, depend less on income from farming and have greater opportunity for allocating labor between farm and nonfarm jobs than in the past. Part-time farming is a permanent and growing part of U.S. agriculture.

Although farm household income fluctuates some, the average income of farm operator households is now on a par with that of all U.S. households. The income distributions and net worth of these households, however, are quite different. Farm operator households have a higher proportion of both high-income and low-income households than do U.S. households. Median farm operator household net worth is almost five times that of all U.S. households.

The greater wealth of farm households reflects, in part, the capital-intensive nature of today's farming and the consolidating of the farm household and the farm business ledgers. A composite farm profile developed from 1988 survey data suggests that to generate net business income comparable to U.S. average household income, a farm business would need total assets of about $750,000. Asset and sales levels needed to obtain this income vary by type of farm.

Today's farms are about 25 percent of all sole proprietorships, less than 10 percent of all partnerships, and only 2 percent of all corporations in the United States. Farms are generally smaller than other businesses. In terms of assets, sales, and employment, even the largest corporate farms are tiny compared with the average U.S. corporation. The very limited data available suggest that farms on average earn returns comparable to those earned by most other small businesses with the same assets. Only small businesses in other real estate-based industries use more assets per dollar of return.

Structural Change in the U.S. Farm Sector, 1974-87

13th Annual Family Farm Report to Congress

Donn A. Reimund and Fred Gale

Introduction

The first annual report on the status of the family farm was written in 1978, largely based on data from the 1974 Census of Agriculture. Between 1974 and 1987, the farm sector was shaped by macroeconomic events that contributed to the most dramatic boom and bust cycle seen by the farm sector since World War II. These events caused large swings in the financial status of farmers, but had only small effects on the structure of the industry. The trend toward fewer, larger farms that led to substantial changes in the sector during the 1950's and 1960's continued, but at a much slower rate than in earlier years.

The Volatile Farm Sector Financial Conditions of 1974-87

Several forces combined during the past two decades to produce a boom and bust cycle in the U.S. farm economy. The 1970's were generally optimistic times for U.S. agriculture, fueled by strong worldwide demand for U.S. farm products that kept farm prices high and boosted farm incomes. At the same time, chronic inflation led to low or negative real interest rates, encouraging investors to search for investments, such as land, that would hold their real value during inflationary times. Farmland seemed a good investment. Money flowed into the sector, financing land and machinery for farmers expanding their operations or getting started. Agricultural land values rose rapidly, often encouraging more borrowing by farmers.

The economic climate abruptly changed in the early 1980's. Restrictive monetary policy aimed at curbing inflation drove interest rates up and brought inflation down, resulting in much higher real interest rates (fig. 1). This policy raised the cost of borrowing for farmers and increased the attractiveness of investment in interest-bearing assets rather than farm assets. At the same time, a stronger dollar, reduced domestic demand, and greater overseas competition shrank U.S. farm exports that had fueled much of the 1970's optimism.

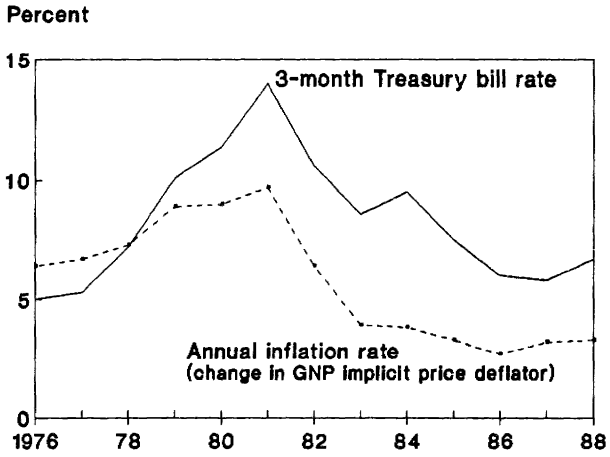
The changed economic climate lowered real farm incomes because of lower output prices and higher costs. Land values declined as the optimistic expectations on which high land values were based diminished (fig. 2). Because land accounts for most of the assets on the typical farm's balance sheet, the decline in land values profoundly affected the financial condition of farms. Falling asset values and reduced real cash-flow led to financial difficulties for farmers who earlier had incurred large debts to finance expansion. Expansion was based on the assumption that the high asset values and the favorable economic climate of the 1970's would persist indefinitely.

The volatile economy of 1974-87 produced wide swings in incomes, asset values, and equity for U.S. farmers. The effects are most evident in changes on the balance sheet of the farm sector. Between 1974 and 1980, nominal farm asset values more than doubled from $508.8 billion to $1,101.6 billion (fig. 3). Debt also doubled, but most of the increase in asset values accrued to farm equity. The farm crisis years of 1982-86, however, saw most, but not all, of the earlier nominal gains in asset values lost as land values declined. Some farmers who had acquired large debts during the 1970's boom became insolvent, as the value of their assets became less than their outstanding debt. After we adjust for the effects of inflation, the losses experienced in the 1980's exceed the earlier gains (fig. 4). In real terms, asset values grew 33 percent ($342 billion) between 1974 and 1980, and fell 47 percent between 1981

Figure 1

Interest rates and inflation rates

After peaking in 1981, inflation and short-term interest rates declined

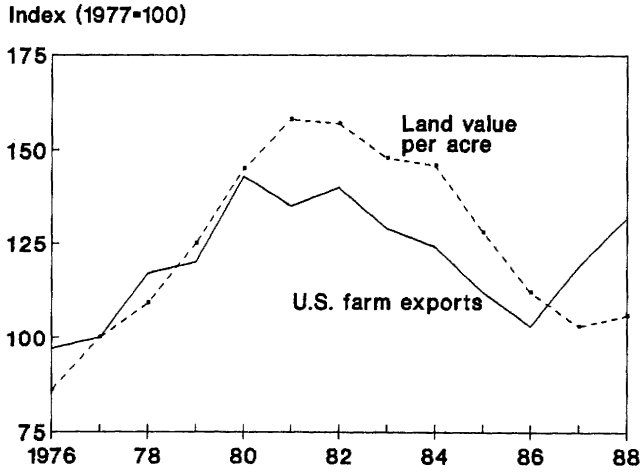


Source: (*6*).

Figure 2

Land value per acre and farm exports

These variables reflect boom and bust in the U.S. farm economy

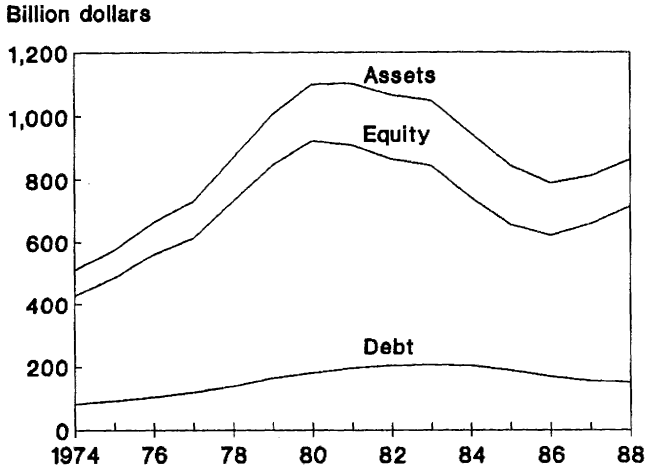


Source: (*16*).

Figure 3

Nominal farm assets, debt, and equity

Assets and equity climbed during the inflationary 1970's and fell during the 1980's farm recession

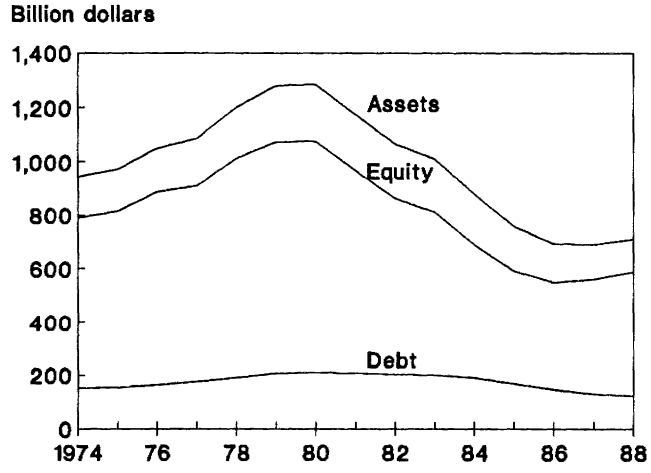


Source: (*16*).

Figure 4

Real assets, equity, and debt

In real terms, the 1970's rise in value of assets and equity was more moderate and the 1980's decline more severe compared with nominal changes



Source: (*16*).

and 1987 ($597 billion). In real terms, farms were worth $235 billion less in 1988 than they were in 1974. Farmers' equity also was lower in 1988 by $206 billion.

The boom and bust cycle had its most noticeable effect on the farm balance sheet, but income was also affected. Net farm income was highly unstable over the period (fig. 5). Nominal total net farm income fluctuated around $25 billion between 1975 and 1982, fell dramatically to $12.7 billion in 1983, and rose steadily thereafter, reaching $47 billion by 1989, 67 percent higher than the 1974 value. Real net farm income (in 1982 dollars) did not keep up with the rapid inflation of the late 1970's, falling consistently until 1983, but generally rising thereafter (fig. 5). Real net farm income in 1988 was about three-fourths that of 1974.

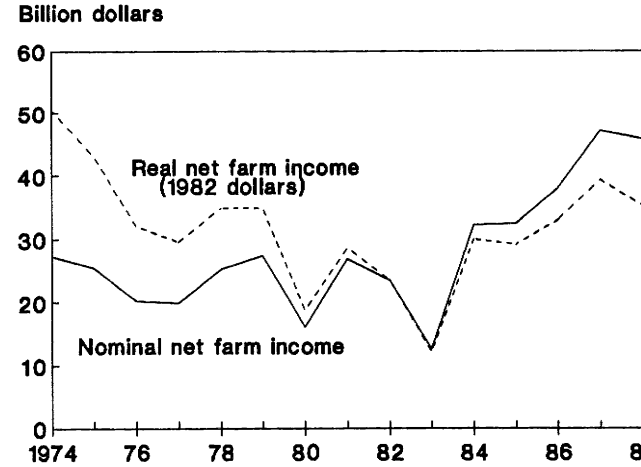
Government payments and off-farm income provided cash-flow to enable many farmers to continue farming during the 1980's farm crisis. Government payments in constant dollars rose rapidly, from less than $1 billion in 1974 to $11.9 billion in 1988 (fig. 6). The proportion of Government payments as a component of farm receipts has risen also, from 0.6 percent in 1974 to 9.7 percent in 1988. Most of the increase came in the 1980's. Government payments have declined since 1988 as the farm sector recovered from the recession. Government payments were about 5 percent of gross receipts in 1990. High target prices and loan rates under the Agriculture and Food Act of 1981 contributed to growing crop inventories and rising Federal expenditures as the United States essentially priced itself out of world markets. The Food Security Act of 1985 continued relatively high target prices but allowed loan rates to decline to near world price levels.

Off-farm income also provided an important cushion for many farmers caught in the squeeze of the farm financial crisis. Today's farmers, on average, earn as much income from off-farm sources as they do from the farm. In addition to raising the total income for farm families, a relatively stable off-farm income moderates the wide annual swings in net farm income (fig. 7).

Trends in the Size, Number, Ownership, and Organization of Farms

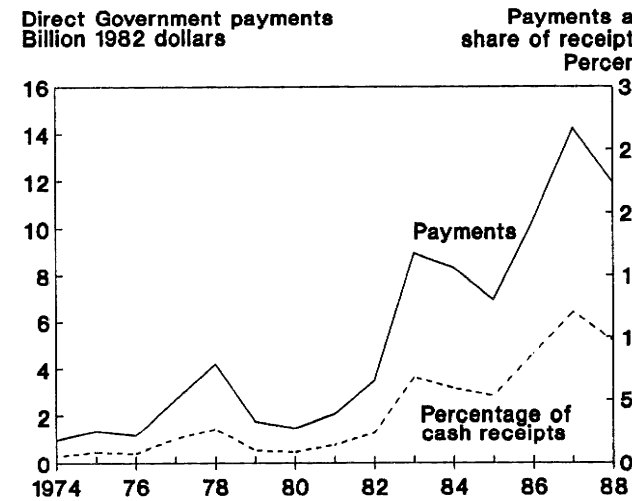
Change in the size, number, ownership, and organization of farms during 1974-87 was much less dramatic than the change in farm financial conditions. The number of farms decreased and average farm size increased dramatically during the 1950's and

Figure 5
Nominal and real net farm income
Real net farm income in 1988 was only three-fourths that of 1974, even though nominal real income rose sharply during the 1980's



Source: (*16*).

Figure 6
Government payments and their share of cash receipts
Direct Government payments have become a more important source of income for farms



Source: (*16*).

1960's, and the trends continued during 1974-87. From 1954 to 1974, the number of farms fell by half, from nearly 4.8 million to 2.3 million (fig. 8). Between 1974 and 1987, the decline slowed to less than 10 percent. Average farm size also nearly doubled between 1954 and 1974 from 242 acres to 440 acres, stabilized during the 1970's, and increased only slightly during the 1980's to 462 acres in 1987. Slower change in farm numbers and size reflects a gradual slowing of the trend toward fewer, larger farms.

Large declines in farm numbers during the 1950's and 1960's were the result of forces associated with the growth of the U.S. economy. As the economy grew, the demand for labor in industries other than farming raised wages in nonfarm occupations compared with farm incomes, attracting workers away from farming. Studies have found that much of the worker migration from farm to nonfarm jobs can be explained by greater nonfarm wages relative to farm earnings (*3*).[1]

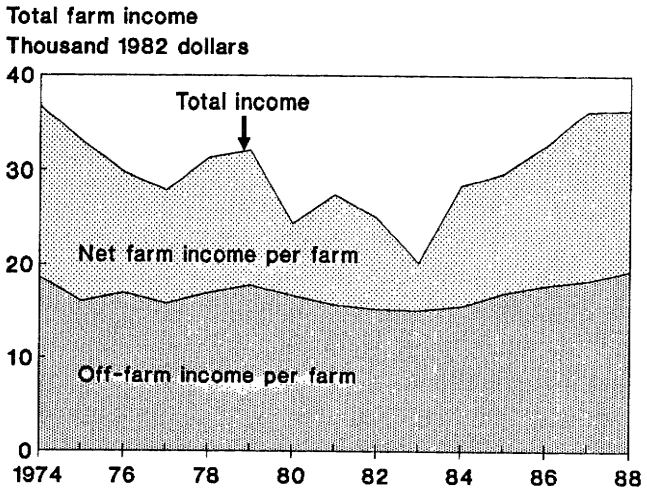
This stream of migration happened as average farm size rapidly increased because of greater productivity of labor and other farm inputs associated with mechanization, management and organizational innovations, and other changes in farming practices and technologies. These technologies generally allowed a farmer to efficiently operate a larger farm with less labor, producing the same amount of food and fiber with substantially less labor. Innovations that increased the productivity of other inputs, such as fertilizer, pesticides, hybrid plant varieties, and animal breeding practices, were also introduced and adopted by farmers. Although increased farm size is often attributed to advances in technology, many economists argue that higher farm labor costs compared with the costs of mechanized inputs led to larger farms (*10*).

The greater productivity of labor and other inputs led to growth in food production capacity in the face of relatively static demand. This situation produced downward pressure on farm prices and incomes, providing a "push" factor to move labor out of farming to add to the "pull" of relatively attractive nonfarm wages. Left behind was a farm sector with fewer operators operating larger farms.

The increased use of machinery and other physical capital that characterized this trend toward larger, more capital-intensive farms is well known, but the

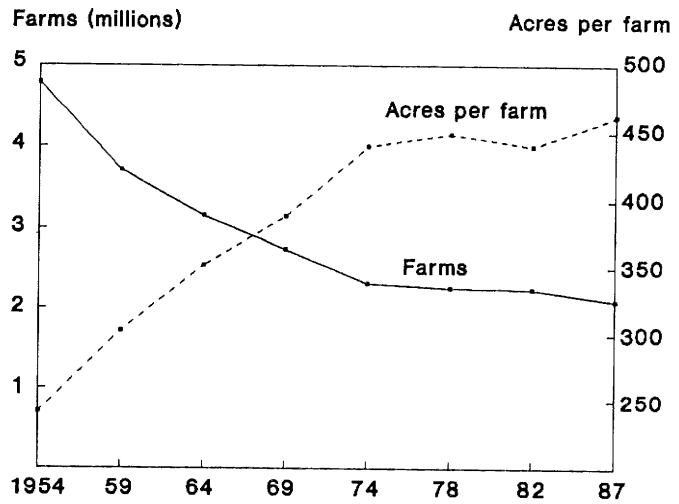
[1]Italicized numbers in parentheses identify literature cited in the References at the end of this report.

Figure 7
Off-farm and net farm income per farm
Off-farm income increases the level and stability of total income earned by farm families



Source: (*16*).

Figure 8
Farm numbers and average farm size
The trend to fewer but larger farms slowed in the 1970's and 1980's



Source: (*19*)

increase in "human capital"--the skills and knowledge of farmers--is not often recognized. Today's farm operators have become more highly skilled and educated than their predecessors. Data from the census of population indicate that the median level of school completed by persons whose primary occupation is farm operator increased from about 10.8 to 12.4 years between 1970 and 1980, and the share who completed 1 or more years of college increased from 11.3 to 23.4 percent (*20*). Farmers have had to adapt to ever changing technology and adopt advanced management practices to survive in today's complex and volatile farm economy.

The decline in farm numbers and increase in farm size have slowed over time and temporarily halted during the relatively prosperous years of the late 1970's. The pressure for labor to move out of agriculture seems to have abated, and the introduction of labor-saving farming technologies also seems to have slowed. Agricultural economists have found that growth in farm productivity during 1948-68 was more rapid than during the 1970's, and labor hours per unit of output was virtually unchanged during 1981-86 for major agricultural commodities (*2*).

The trend toward fewer, larger farms has led to concern that many midsized farms will disappear, to be replaced by relatively few large farms controlled by nonfamily corporations. Changes in the distribution of farms between 1974 and 1987, measured by the value of products sold in nominal dollars, show substantial increases in the number and proportion of farms with product sales of $100,000 or more and decreases in the number and proportion selling products worth less than $100,000 (table 1). The number of farms with $100,000 to $499,999 in sales increased by 87 percent, and the number of farms with sales of $500,000 or more nearly tripled.

The use of value of products sold in nominal dollars to measure farm size, however, overstates the increase in farm size during periods of general inflation when farm commodity prices are rising and understates the increase when prices are falling. The index of prices received by farmers increased by 27 percent during 1974-82 and decreased by 4.5 percent during 1982-87. Thus, the apparent growth of large farms during most of the period was partly due to inflation.

When the effects of price level changes are taken into account, the real change that occurred during 1974-87 was less than that indicated by the nominal distributional change, but there was still a shift toward larger farms (table 2).[2] Farms with less than $100,000

[2]This distribution was constructed by adjusting the value of products sold for each farm in the 1974, 1978, and 1987 censuses of agriculture to the 1982 price level using the index of prices received by farmers. After we indexed for price level changes, we grouped all farms for each census year into four classes according to 1982 constant dollar value of products sold.

Table 1--Change in distribution of farms, by value of products sold
Large farms' share of total product sales has been increasing

Item	Share of all farms				Share of all farm sales			
	1974	1978	1982	1987	1974	1978	1982	1987
				Percent				
Value of products sold:								
Less than $10,000	52.0	47.5	48.9	49.3	4.7	3.9	2.7	2.5
$10,000 to $99,999	41.3	42.5	37.5	36.5	41.5	33.6	24.7	21.2
$100,000 to $499,999	6.1	9.0	12.3	12.6	31.2	35.0	40.1	38.2
$500,000 and over	.5	.8	1.2	1.5	22.5	27.4	32.5	38.2
				Thousands				
U.S. farms	2,314	2,257	2,241	2,088	NA	NA	NA	NA

NA = Not applicable.
Source: U.S. Department of Commerce, Bureau of the Census, unpublished data.

Table 2--Farms and farm product sales, by real value of sales
The trend toward fewer farms producing greater shares of product sales is still apparent, even after adjusting for the effects of inflation

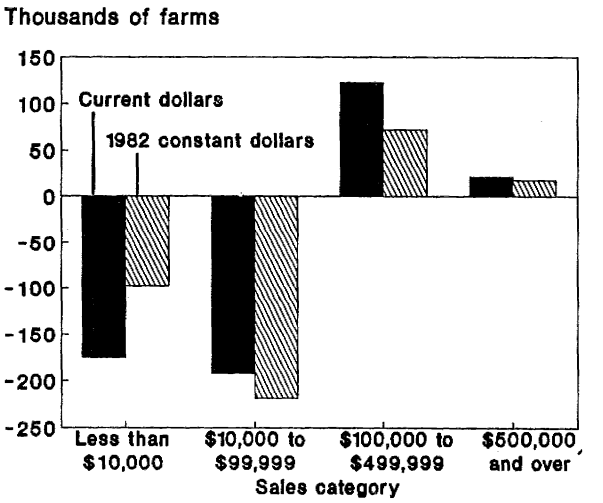
Item	Share of all farms				Share of all farm sales			
	1974	1978	1982	1987	1974	1978	1982	1987
	Percent							
Value of products sold:								
Less than $10,000	48.1	44.9	48.9	48.6	3.7	3.1	2.7	2.4
$10,000 to $99,999	42.7	43.2	37.5	36.9	36.4	29.9	24.7	20.6
$100,000 to $499,999	8.5	10.9	12.3	12.8	34.7	37.3	40.1	37.5
$500,000 and over	.7	1.0	1.2	1.6	25.2	29.7	32.5	39.4

Source: U.S. Department of Commerce, Bureau of the Census, unpublished data.

in sales decreased in number by more than 300,000, and farms with more than $100,000 in sales increased by more than 87,000. The proportion of farms in the largest size class (more than $500,000 in sales) doubled even in real terms, but these farms accounted for only 1.6 percent of all farms in 1987. However, their share of farm output value increased from 25 percent to nearly 40 percent. In real terms, the proportion of farms with sales of less than $10,000 during the period remained almost unchanged. Farms in this smallest size class are almost always operated as part-time businesses. The proportion of farms with sales of $10,000 to $99,999 decreased the most. This size category of farms, whose numbers fell by 192,000 when evaluated in nominal terms and by 218,000 in real terms, accounted for nearly all the loss of 226,000 farms between 1974 and 1987; the gains in farms with sales of $100,000 or more offset the loss in farms with less than $10,000 in sales (fig. 9).

Changes in the distribution of farms as measured by average acres show a pattern during 1974-87 similar to that shown by the changes in the value of products sold (table 3). Farms with fewer than 50 acres increased as a proportion of all farms, as did farms with 500 or more acres. The farm number decline was concentrated among farms of 50-499 acres. As a proportion of all farms, this group of farms fell from 62 percent in 1974 to 53 percent in 1987. The number of farms with 50-499 acres declined by 321,000. The size class of 1-49 acres gained 88,000 farms. These changes reflect an increasing number of small, primarily noncommercial farms, and a less numerous group of large commercial farms that are generally growing in size as smaller farms of exiting farmers are consolidated into larger ones.

Figure 9
Change in numbers of farms, by nominal and real sales, 1974-87[1]
Farms with sales of $10,000-$99,999 accounted for most of the drop in farm numbers



[1]Constant dollar sales are from unpublished census data.
Source: (*19*).

Table 3--Change in the distribution of farms, by acres
The proportion of farms with 50-499 acres fell sharply, but the proportion of largest and smallest farms rose

Item	1974	1978	1982	1987
	Percentage of all farms			
Farm size (acres):				
1 to 49	21.9	24.0	28.4	28.6
50 to 499	62.4	59.4	55.3	53.0
500 to 1,999	13.0	13.7	13.4	14.5
2,000 or more	2.7	2.8	2.9	3.2
	Thousands			
Total farms	2,314	2,257	2,240	2,087
	Acres per farm			
Average size	440	449	440	462

Source: (*19*).

Analysis of the recent census of agriculture data reveals that family-owned farms are not losing their share of control over the Nation's farms to primarily nonfarm corporate business entities. The distribution of farms by type of business organization was very stable from 1978 to 1987 (table 4). The only notable change in the distribution was an increase from 2 to 3 percent in the proportion of farms operating as family-owned corporations. The actual number of incorporated family farms increased from 44,413 in 1978 to 60,771 in 1987, the number of nonfamily corporate farms increased by 380 to 6,198, and the number of sole proprietorships and partnerships declined by 157,000 and 33,000. Corporate farms, whether family held or not, are relatively large. Thus, they account for a higher proportion of farm resources and production than they do farm numbers. Incorporated family farms accounted for 11 percent of land in farms and 19 percent of the total value of products sold in 1987, although they were 3 percent of all farms. As is the case with large farms, family corporate farms are gaining an increasing share of the Nation's farming resources, but the growth is slow.

The distribution of farms by tenure status changed very little between 1974 and 1987 (table 5). The absolute number of farms declined in each of the categories. A small drop in the share of full-owner

Table 4--Distribution of farms and farm product sales, by type of business
Family-owned farms are holding their own against nonfamily corporations in both numbers and value of sales

Item	Share of all farms				Share of all product sales			
	1974[1]	1978	1982	1987	1974[1]	1978	1982	1987
	Percent							
Type of organization:								
Sole proprietorship	89.5	87.1	86.8	86.7	67.6	61.6	59.2	56.3
Partnership	8.6	10.3	10.3	9.6	13.9	16.1	16.4	17.1
Family corporation[2]	1.7	2.0	2.3	2.9	n.a.	15.1	17.4	19.5
Nonfamily corporation[2]	1.7	.3	.3	.3	n.a.	6.5	6.5	6.1
Other[3]	.2	.4	.5	.6	.5	.6	.5	.9

n.a.= Not available
[1]For farms with sales of $2,500 or more. This information was not obtained for farms with less than $2,500 in sales in 1974.
[2]1974 Census of Agriculture did not have separate data on family and nonfamily corporations.
[3]Includes cooperative, estate, trust, and institutional farms.
Source: (*19*).

farms was offset by a corresponding increase in the share of part-owner farms. This change reflects a long-term trend toward a higher proportion of part-owner farms. Many farmers in the process of expanding their farming operations prefer to lease rather than buy additional land to avoid tying up their capital and increasing their debt load.

Most farmers still own all the land that they farm, but full owners often operate very small farms. Among farms with 1987 sales of $10,000 or more, the number of full owners and part owners was about equal (about 450,000 each), and there were 160,843 tenants. Part owners and tenants together farm about twice as much land as full owners, even though there are fewer of them. Nearly half of the Nation's farmers were principally employed in an occupation other than farming in 1987. Of those operators who are principally employed as farmers, many have a spouse or other family member employed full time off the farm, and many work part time off the farm themselves. Nearly 60 percent of operators reported working some days off farm in 1987. The most noticeable change in farm structure during 1974-87 was a substantial increase in the proportion of farm operators whose principal occupation was not farming (table 6).

Farm households receive off-farm income from various sources. Off-farm wage and salary income is by far the major source of off-farm income. Other important sources of off-farm income include nonfarm businesses and professions, retirement and disability income, and interest and dividends on investments. Over 83 percent of the off-farm income received by farm households in which the operator has a primary occupation other than farming is income earned from off-farm employment or the operation of a business or profession. In contrast, the off-farm income received by households in which farming is the operator's principal occupation is about equally divided between earned income and income from investments, retirement pay, nonfarm property, and other sources (table 7).

The importance of off-farm income is one indication of the extent to which part-time farming has become a permanent and growing part of U.S. agriculture. Off-farm income has resulted from reduced farm labor requirements accompanying mechanization and new labor-saving technologies and from increased off-farm employment opportunities in many rural areas. Part-time farmers are primarily employed in a nonfarm occupation and operate a farm as a second job, a pastime, or an investment opportunity. Whatever their objectives, farmers, particularly those with smaller operations, depend less on income from farming and have greater flexibility in the use of their labor resources than is often assumed.

Farm numbers are concentrated at the lower end of the size spectrum, and farm output and resources are concentrated at the upper end. We can refer to the commercial agriculture component as consisting of those farms selling products valued at $100,000 or more. Although only 14 percent of U.S. farms fell into this group in 1987, they accounted for over 75 percent of total value of farm products sold, almost 85 percent of total net returns from farm product sales, and nearly 50 percent of all U.S. farmland. At the lower end of the farm size distribution (farms with product sales of less than $25,000), about 65 percent of U.S. farms accounted for only 6 percent of the value of products sold and operated just under 25 percent of the land in farms. This latter group of farms, which are often operated as part-time farms, in aggregate had negative net cash returns in 1987 (fig. 10).

Table 5--Distribution of farms, by tenure
Tenure status changed little during 1974-87

Type of tenure	1974	1978	1982	1987
	Percentage of all farms			
Full owner	61.5	57.5	59.2	59.2
Part owner	27.1	30.2	29.3	29.2
Tenant	11.3	12.3	11.6	11.5

Source: (*19*).

Table 6--Principal occupation of farmers
The share of part-time farmers is growing

Principal occupation	1974	1978	1982	1987
	Percentage of all farmers			
Farming	62.6	56.7	55.1	54.5
Other	37.4	43.3	44.9	45.5

Source: (*19*).

Table 7--Sources of farm operator household off-farm income, 1988
Wages and salaries from off-farm jobs are the largest source of off-farm income for farm households

Source of income	Principal occupation of operator			
	Farming		Other	
	Number	*Thousand dollars*	*Number*	*Thousand dollars*
Wages and salaries	420,233	6,657,403	561,442	19,565,988
Business and profession	65,920	1,054,964	101,001	2,666,448
Retirement and disability	311,707	3,063,699	146,366	1,614,882
Public assistance	16,006	142,540	22,137	43,659
Interest and dividends	435,668	2,251,048	322,133	1,536,083
Estates, trusts, nonfarm property rent, mineral leases	87,185	994,659	74,040	604,700
Annuities, alimony, contributions	15,882	110,179	11,766	62,044
Gifts or inheritance	39,520	540,087	16,878	176,231
Net capital gains	32,547	414,451	26,113	434,089
Total	736,938	15,229,031	661,882	26,704,125

Source: (*18*).

Farmers on small farms are much more likely to work off the farm than are operators of the larger commercial farms, because of both increased labor productivity in agriculture and increased industrial and business diversity in the rural economy (fig. 11). Increased labor productivity has provided an incentive for the growth of larger farms by enabling farm operators to expand the size of their farming operations to keep their labor resources fully employed. Rural economic diversification provides an employment outlet for labor resources released from full-time farming and enables many farm operators to remain in farming on a part-time basis while earning their livelihood from off-farm employment. The greater incidence of off-farm work among small farm operators suggests that the high degree of dependence on off-farm income for farm households is concentrated among small farms. Thus, many households operating small farms depend mainly on off-farm income, and the relatively few households operating large farms depend more on farm income.

Effects of Recent Economic Events on Farm Size and Numbers

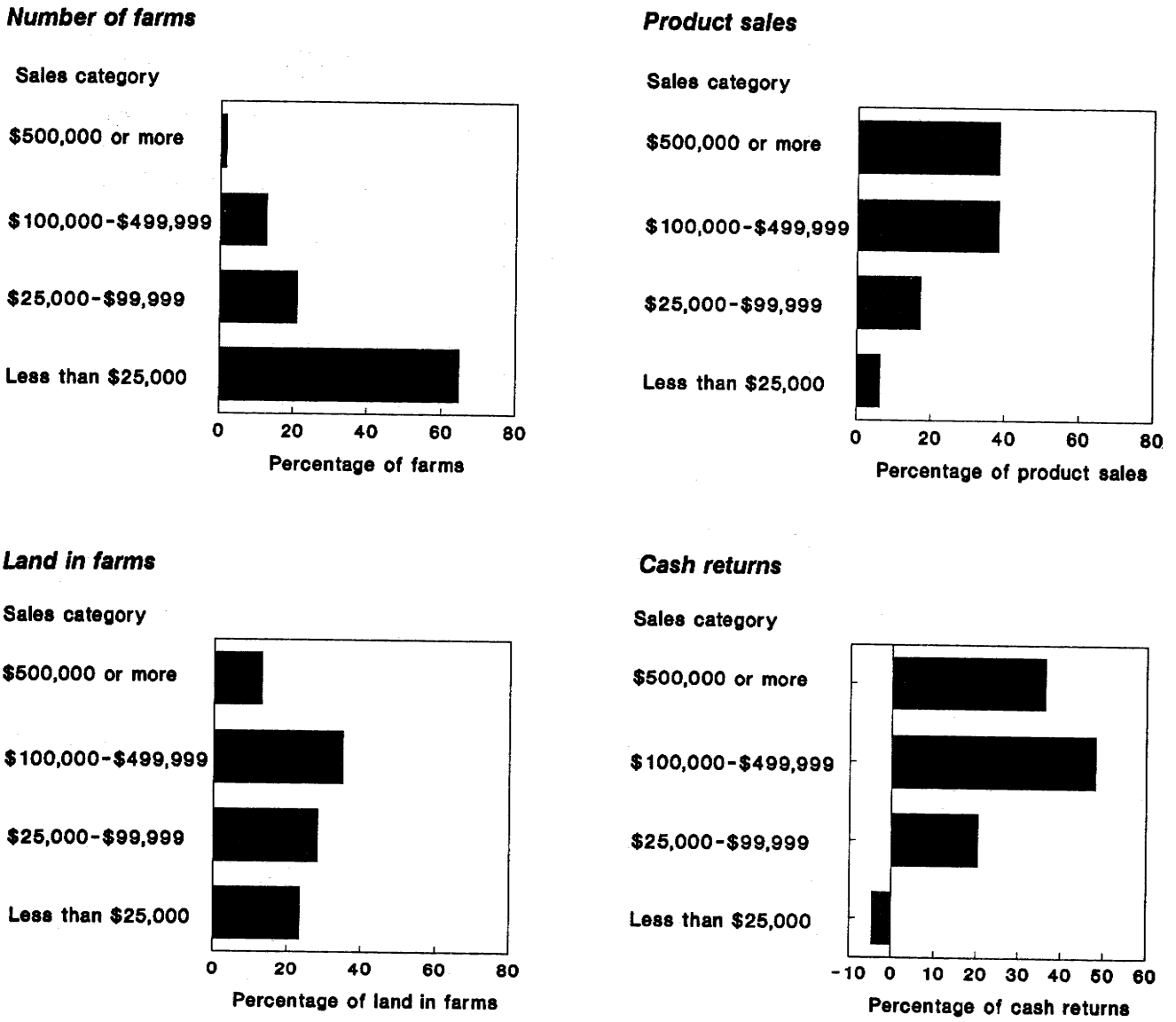
Close examination of USDA's annual estimates of farm numbers and average farm size shows that recent economic events have played a role in shaping farm structure. Although farm numbers fell steadily without interruption in the 1950's and 1960's, the rate of decline in farm numbers slowed considerably in the 1970's. Small increases were recorded for a couple of years around 1979-81. During the mid-1980's farm crisis, however, farm numbers fell again, but not nearly as rapidly as in the 1950's and 1960's. After the worst years of the crisis were over, the rate of decline slowed again during 1987-89. Total land in farms continued to fall slowly during the 1970's and 1980's, slowing the growth in average farm size in the late 1970's. Average farm size increased throughout the 1980's.

The size and number of farms are ultimately the result of the decisions of many to enter or leave farming or to expand existing farms. The decline in farm numbers slowed during the 1970's because more new farmers entered the business in response to favorable economic conditions for farming while fewer farmers were moving out of farming. Evidence indicates that entry of new farms was mostly among small farms. Between 1978 and 1982, entry exceeded exit for the smallest farms, but for farms with 50 or more acres, there were fewer entries than exits (table 8). This situation accounts for the decrease in average farm size during that time. Other tabulations show that movements of farms to larger size classes during that period were offset by nearly equal movements of farms to lower size classes. Growth in local nonfarm economies may have affected the growth of part-time farms. Plentiful jobs can help farm families primarily employed in farming who would otherwise not be able to continue farming by providing off-farm employment and income to

Figure 10

Farm distributions by sales category, 1987

Most farms sell less than $25,000 worth of products, but farms selling products worth $100,000 or more account for nearly half the farmland and most of the products sold and cash returns

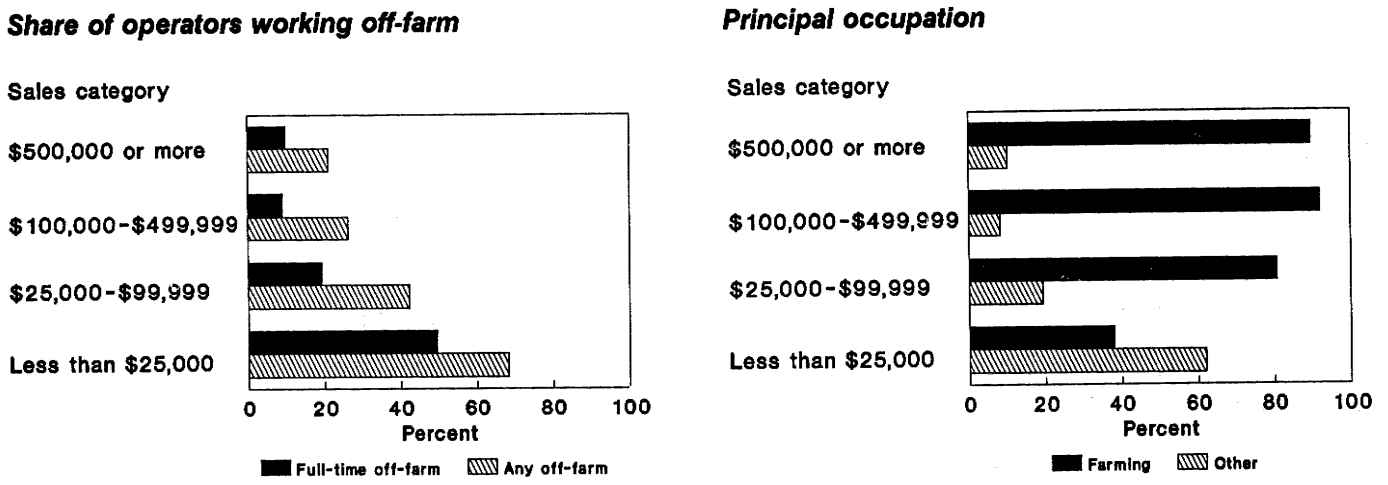


Source: (*19*).

Figure 11

Operator occupation and off-farm work status, by farm sales category, 1987

Most of the farmers with the smallest sales have principal occupations other than farming



Source: (*19*).

Table 8--Entry and exit by farm size between 1978 and 1982

Entry exceeded exit for small farms, but exit was greater than entry for midsized and larger farms

Farm size, acres	Farms, 1978	Entry	Exit	Entry - exit	Farms, 1982
			Number		
1 to 9	148,673	107,329	74,978	32,351	181,024
10 to 49	390,272	195,314	143,734	51,580	441,852
50 to 69	141,671	44,296	44,602	-306	141,365
70 to 99	213,864	51,894	63,006	-11,112	202,752
100 to 139	209,665	44,158	56,786	-12,628	197,037
140 to 179	193,421	34,598	50,738	-16,140	177,281
180 to 219	125,742	20,908	29,904	-8,996	116,746
220 to 259	108,030	16,038	24,275	-8,237	99,793
260 to 499	347,645	48,526	74,068	-25,542	322,103
500 to 999	213,155	31,542	43,973	-12,431	200,724
1,000 to 1,999	97,758	16,498	21,390	-4,892	92,866
2,000 or more	63,186	14,783	15,702	-919	62,267
All sizes	2,253,082	625,888	643,159	-17,271	2,235,811

Source: Tabulated from longitudinal data file constructed from 1978 and 1982 censuses of agriculture.

supplement low or negative farm income. Other factors, such as a greater preference for rural living, a large group of farm-born youth (from whom most farm entrants are drawn) born during the baby boom years of the 1950's, or use of farming as a tax shelter, probably also boosted entry to farming during the 1970's and early 1980's (*11, 14*). The effect of these other influences, however, was probably enhanced by the favorable economic climate.

Regional differences in entry, exit, and changes in farm size also emerged during the 1970's. The stabilization in farm numbers that appears in the aggregate count in the late 1970's and early 1980's (fig. 8) did not characterize all U.S. regions (fig. 12). All regions show rapidly decreasing farm numbers through the 1960's, but farm numbers stabilized in the Northeast and actually increased in the West in the 1970's. In the South and the major farming

regions of the Midwest and Plains, farm numbers continued to fall, but more slowly. In some areas within the South and the Plains region, farm numbers stabilized or increased, but they fell in other areas.

Many of the new farms in the Northeast and West were small part-time farms, decreasing average farm size. Entry in the Northeast was around metro areas, but new western farms contributed to rural population growth in the region. In the Midwest and Plains, where good farmland is relatively abundant, people are relatively scarce, and the topography lends itself to large farms, there is still pressure for farm expansion and consolidation. Farm numbers in most areas of the Corn Belt and Plains have continued to fall, and farm size has continued to increase. The South still has many poor people on farms, leading to pressure for continued departures from farming. In the Midwest, Plains, and South, the exodus of farm-raised youth, the traditional pool from which new farm entrants are drawn, has left many aging operators of family farms facing retirement with no heir to take over. These factors have led to decreasing farm numbers in the Midwest, Plains, and South.

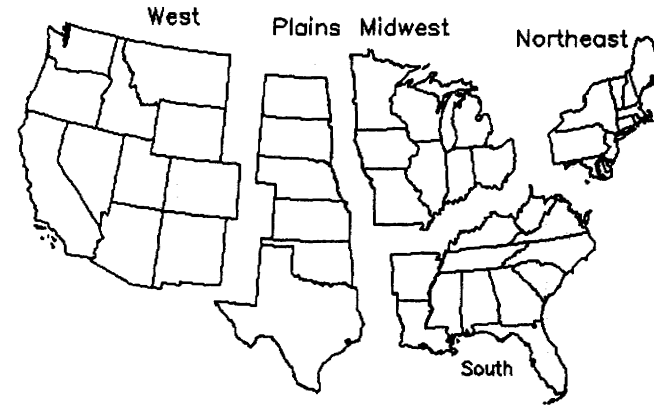
During the 1980's farm crisis, the news media often focused on forced exits from farming through bankruptcy or involuntary liquidation. Thus, some observers often assume that such forced exits attributable to financial stress were responsible for the greater net decline in farm numbers observed during the 1980's. However, net decline in farm numbers can be brought about by reduced entry as well as increased exits.

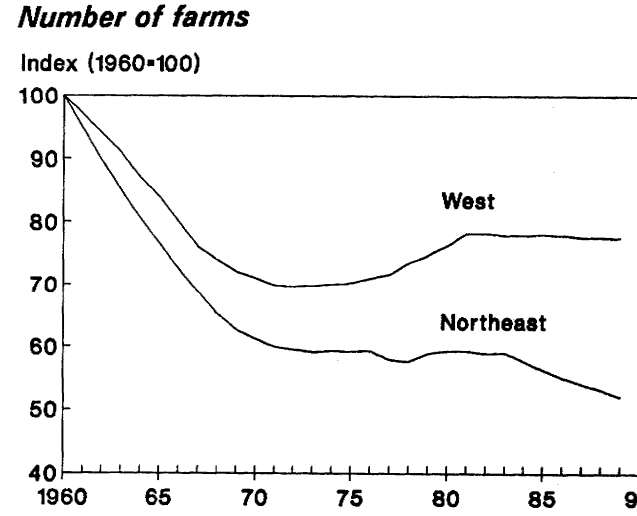
Data on entry and exit in agriculture are scarce. No consistent statistical series measures these variables. An opinion survey of agricultural banks gave estimates of the number of farms going out of business in the bank's lending area each year ranging from 2.2 percent in 1982 to 6.2 percent in 1986 back to 2.8 percent in 1988 (*15*). Several studies, based on sample surveys of farmers in Wisconsin, North Dakota, Texas, and Dodge County, Georgia, who were interviewed in the early 1980's and reinterviewed several years later, found exit rates of 3 to 5 percent per year (*4*). About 65 percent of exits were judged to be voluntary in the Wisconsin study. The Texas study found higher exit rates for midsized farms than for farms of other sizes, but the other studies found roughly equal exit rates for farms of all sizes. We have no hard evidence about how many farmers left or were forced out of farming during the farm crisis years. The limited evidence available suggests that exits of farmers due to financial stress

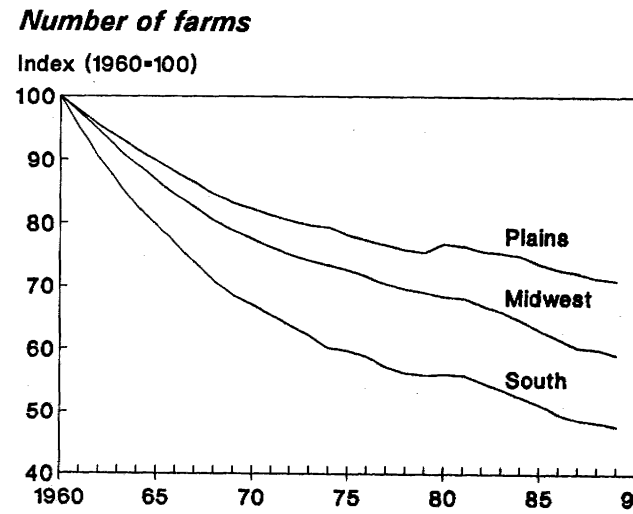
Figure 12

Five U.S. regions and their farm numbers

Farm numbers stabilized in the Northeast and West during the 1970's, but fell steadily in the Plains, Midwest, and South







Source: (*17*).

varied from about 2 to 4 percent of all farmers during the worst years of the farm recession.

Net decline in farm numbers during the 1980's could also have reflected fewer entries. Just as adverse economic conditions in farming drive people out of the sector, adverse conditions also keep new people from entering farming. Low farm earnings, pessimistic outlook, reduced supply of farm credit, and high interest rates probably discouraged many people from entering farming or induced them to enter a nonfarm occupation instead.

Census of agriculture data indicate that there was a significant drop in entry during the mid-1980's compared with 1978-82 when entry was unusually high. In 1982, 18 percent of farmers reported having been on their current farm no more than 4 years. In 1987, that number had dropped to 14.5 percent. Thus, the number of new farms dropped from 403,000 in 1982 to 303,000 in 1987, a decrease of almost 25 percent (*9*).[3] The greater decline in farm numbers during the 1980's compared with prior years is most probably due to greatly reduced entry rather than increased exits.

The decline in entry varied for different types of farms. Entry of farmers younger than 35 years old, the most common age for entry to full-time farming, fell the most (40 to 50 percent). This can be attributed to poor economic prospects for farming that discouraged young people from starting farming careers, restricted farm credit availability during the farm crisis, and demographic trends that have led to a shrinking number of young farm people, who traditionally make up the pool of potential farm entrants. Entry of farmers over 65 years old, however, increased slightly. Entry of large farms with more than $250,000 in sales also increased, but entry of farms with less than $100,000 in sales fell by 25 to 35 percent. This change was partly due to inflation, but also reflected the trend toward larger farms that resumed during the 1980's after being slowed by the entry of many small farms during the late 1970's. Entry fell for both part-time and full-time farmers in every State except Hawaii.

Summary of the Effect of the Boom and Bust on Farms

Most of the impact of the boom and bust cycle was felt in dramatic shortrun changes on the balance sheets and income statements of farms. The effects on the size and number of U.S. farms appear to have been less dramatic.

The healthy farm economy of the 1970's increased the number of farms, mostly by attracting many new small farms, stabilizing the growth in average farm size. Strong net entry was limited to Western and Eastern States and metro areas. Entry of new young farmers born during the baby boom of the 1950's contributed to this increase in farms.

The farm crisis of the 1980's led to fewer entries, compared with the 1970's, and more exits, but most farmers were able to ride out the crisis until the situation improved. The effect on the number of farms was felt mainly through decreased entry, particularly by young farmers. The limited evidence available does not show that operators of midsized farms were more likely to quit farming during this period than operators of other farm sizes.

Farm Diversity Features
Commodity Specialization

The number of farms and number of people involved in farming has shrunk, and the sector has become more diversified. Farms have become more specialized along commodity lines, with distinct trends for different commodity subsectors. Some parts of the sector have maintained an autonomous owner-operator farm, and other parts are becoming more like the nonfarm industrial sector. The "typical" U.S. farm is hard to describe. When we attempt to evaluate the status of the family farm and how farm households are doing compared with nonfarm households and businesses, we should acknowledge the increasing diversity of U.S. agriculture.

Specialization in farm production goes beyond the farm, extending to different regions of the country. In earlier times, both farms and regions were much more diversified than now. Specialization on farms increased largely because of technological innovations, such as chemical herbicides and single-function machinery, that altered the economies of farm production to favor a single-commodity type of agriculture. Regional specialization grew as a result of improved long-distance transportation, product handling, and storage technology that enhanced interregional trade, facilitating commodity concentration in areas of the greatest comparative advantage. Regional concentration of vegetable and

[3]New farms are those farms for which the principal operator reported that he or she had operated the farm for 4 or fewer years. Details of the estimation of these numbers are found in (*9*).

poultry production are good examples. Because of the high degree of farm and regional specialization in U.S. agriculture, the farm sector is really many different industries, each with its own organizational characteristics.

The organization of each agricultural industry is dictated largely by commodity characteristics such as perishability, seasonality of production, resource requirements, degree of processing required, and nature of final demand for the commodity. These factors affect both the concentration of production (number and size of farms) and the manner in which farming is linked with other stages of the production marketing system.

Some parts of the farm sector have taken on many of the characteristics of the nonfarm industrial sector, in which the producer is directly linked to the processing and distribution system through contractual or other arrangements. Other producers operate relatively autonomously, buying and selling on an open market. To illustrate the diversity of the farm sector, we discuss the characteristics of three quite different types of commodity farms: cash grain, beef cattle, and poultry.

Cash Grain Farms Most Closely Resemble Popular Perceptions

Nearly 460,000 cash grain farms specialize in the production of feed grain, food grain, and oilseed crops. The cash grain subsector comes very close to the way most people think of agriculture. The 1987 sales class distribution shows a lower proportion of cash grain farms in both the smaller than commercial farm and very large size classes. Fifty percent of all cash grain farms have sales of less than $25,000 compared with about 65 percent of all farms. Thus, cash grain production is concentrated on small- and midsized commercial farms.

Characteristics of Cash Grain Farms, 1987

- *460,000 farms.*
- *Concentrated on small- and moderate-size commercial farms.*
- *Trend toward fewer and larger farms.*
- *High dependence on Government programs.*

The trend toward fewer, larger farms has changed the cash grain subsector most during the past two decades. Between 1974 and 1987, the number of cash grain farms dropped 21 percent, or nearly 122,000. During that period, the amount of land in cash grain farms fell by 12 percent, from 281 million to 247 million acres, and the average size of farms increased from 485 acres to 540 acres.

The major causes of this change have been advances in machinery technology and cultural practices. Major innovations in machinery include four-wheel drive tractors and increased size and capacity of planting, tillage, and harvesting equipment. Minimum- and no-till land management systems are the main innovations in cultural practices. These innovations have reduced labor requirements per acre, increased capital requirements, and increased specialization in grain production.

The structure of the cash grain subsector has long been influenced by Federal commodity programs, largely through their supply and price stabilization provisions. From about 1950 into the early 1970's, the acreage allotment and price support provisions served to stabilize supplies and transfer market risks from producers to the Government. In this respect, the programs stalled the need to develop supply and risk management mechanisms in the private sector. Since the early 1970's, commodity programs have provided income support as direct payments through a target price program. This program has allowed commodity prices to fluctuate in response to market conditions. That fluctuation, in turn, has provided an incentive for both producers and grain marketing firms to initiate forward selling and buying arrangements as a means of risk management.

The census of agriculture reports that direct Government payments to cash grain farms totaled $5.7 billion in 1987, 59 percent of all direct Government payments to all farmers and 23 percent of the subsector's receipts from commodity sales.

The production of most grain crops uses a lot of land and little labor. Thus, a substantial part of the Nation's farmland (26 percent of all land in farms and 50 percent of harvested cropland in 1987) is operated by cash grain farmers. However, 54 percent of the total land in cash grain farms is leased rather than owned by the farm operator, a much higher percentage than the 42 percent of land leased by all farm operators. The high proportion of leased land indicates that cash grain farmers lease rather than purchase land as a strategy to conserve capital resources and limit debt exposure while allowing them to enlarge their farming operations. For capital, the cash grain subsector relies primarily on retained earnings and traditional sources of farm financing,

such as the Farm Credit Administration, commercial banks, and the Farmers Home Administration.

Beef Cattle Farms Are Often Small, Part-time Farms

A common misperception of cattle raising is the large-scale cattle ranch of the Southwest, consisting of several thousand acres of rangeland and a herd of several hundred beef cows, worked by a crew of 10 to 15 cowboys on horses. Although such large-scale cattle ranches exist, they are the exception rather than the rule. The cattle raising subsector consists of nearly 650,000 farms or ranches, mostly very small, specializing in cow-calf and feeder cattle production. This subsector does not include cattle feedlots. Eighty-five percent of the farms in the cattle raising subsector have annual product sales of less than $25,000, and these small farms contain more than 30 percent of the U.S. beef cow herd. Only 1.4 percent of beef cattle farms have product sales of $250,000 or more.

Characteristics of Beef Cattle Farms, 1987

- *650,000 farms.*
- *85 percent with less than $25,000 annual sales.*
- *Most operators work full time off the farm.*
- *Well-suited to small-scale production.*

Although beef cattle are raised in every State, about half of all the beef cows in the United States in 1987 were equally divided between the southeastern and southwestern parts of the United States. Beef cattle raising is geographically concentrated in the eastern parts of Texas and Oklahoma and in the Gulf Coast and Southeastern States. These are areas where farms are often small, part-time operations. Although the cash grain subsector typifies a commercial family farm, the cattle raising subsector is representative of small-scale, part-time farming. Fifty-seven percent of the operators of beef cattle farms and ranches reported in the 1987 census of agriculture that farming was not their principal occupation, and 60 percent worked full-time (200 days or more) at off-farm jobs. By contrast, only 30 percent of cash grain farmers reported a nonfarm principal occupation, and 30 percent had full-time off-farm jobs.

Cattle raising lends itself very well to small-scale production. No known major economies of size in raising cattle would put small-scale producers at a cost disadvantage. Also, the labor requirement for raising cattle is low. The capital requirements, especially with respect to machinery and equipment, for raising cattle are low in relation to most other agricultural enterprises. Cattle raising can be conducted on marginal land that is generally unsuitable for crop production. Because of these low input and resource needs, cattle raising can easily be conducted in conjunction with a full-time career off the farm.

Unlike the cash grain subsector, the bulk of land used for cattle raising is owned by the farm operator. Only 38 percent of the land used for cattle raising is leased. Grazing land is often leased on a per head basis. In the Western States, a substantial amount of federally owned grazing land is leased at a very low cost per head. However, nearly 70 percent of cattle raisers own all the land they operate.

Operator off-farm income plays a large role in financing cattle production. The operator may directly transfer income earned from other sources into cattle production or use off-farm income as loan collateral. Off-farm income also reduces the income risks endemic to cattle raising by providing a stable income flow through the various stages of the cattle cycle.

Poultry Production Resembles Vertically Integrated Industries

If cash grain production is typical of a commercial family farm, and beef cattle raising represents a small-scale, part-time farm, the poultry subsector represents a large-scale, vertically integrated farm. The poultry subsector consists of about 38,000 farms that specialize in producing broiler chickens, turkeys, or eggs. This subsector, especially broiler production, is the most highly industrialized agricultural subsector. Its production technology, financial arrangements, and methods of coordinating farm production with the input supply and marketing stages more nearly resemble a manufacturing industry than what most people would think of as a farm. Poultry production is concentrated on large commercial farms. Nearly 36 percent of poultry farms had production valued at $250,000 or more in 1987. Only 1.4 percent of beef cattle farms and 4.5 percent of cash grain farms are in this size class.

Before the 1950's, the poultry industry was organized with small, geographically dispersed, autonomous producers selling through open markets. Broilers and other poultry were produced in small flocks located near large towns or cities, where the chickens were sold. Broiler production was a backyard or sideline

Characteristics of Poultry Farms, 1987

- *38,000 farms.*
- *Concentrated on large commercial farms.*
- *Industry structure resembles that of nonfarm manufacturing.*
- *Most production under contract.*

activity for most producers and was closely affiliated with egg production, because broilers were produced from surplus and male chicks of heavy layer breeds.

During the late 1940's and early 1950's, major technological advances were made in poultry housing, materials handling, poultry processing, poultry breeding, nutrition, and disease control. These advances set the stage for the dramatic changes of the 1950's and early 1960's. However, the industry, as it was organized at the time, could not effectively exploit the new technology's potential for lowering production costs and increasing output and sales. Then the poultry integrators, initially feed manufacturers, entered the picture. They recognized the economic potential of combining these new technologies into integrated production-marketing systems and provided the financing and technical expertise necessary for their adoption. The result was the transformation of the poultry industry--first broilers, followed by layer chickens and turkeys--into today's closely controlled, vertically integrated production-marketing systems. A major feature of the change was the shift from a geographically dispersed industry to an industry that is concentrated in the Atlantic Coast States from Delaware to Georgia and the South Central States, primarily Arkansas.

Cash grain farmers and cattle producers operate independently of the nonfarm stages of their industries, selling their products on an open market, but a very different relationship exists between poultry producers and the nonfarm stages of the poultry industry. Virtually all poultry is produced under contract, with the contractor retaining title to the product throughout the production process. The contractor, usually a major agribusiness firm, coordinates the entire production-marketing process from the setting of hatching eggs through the final processing and distribution to retail food outlets. At the farm production stage, the contractor provides chicks or pullets, feed, veterinary and medical needs, and overall management. The farmer's contribution is limited to providing housing, labor, and day-to-day supervision.

For his or her contribution to the production process, the farmer receives from the contractor a set amount per live weight of birds or number of eggs produced. Most contracts contain an incentive clause that pays the farmer a bonus if the feed conversion exceeds a specified rate. The payment received by the farmer, which pays for labor and rent for housing, approximates the value added for these inputs. The farmer is paid for services provided rather than for products sold. In this respect, the poultry-producing farmer functions more as an agricultural service firm than as an actual farm operator. Under this contract system of production, products are not exchanged at the farm level. The contractor rather than the farm operator bears the price and market risks, and the contractor rather than the farm operator controls the volume and timing of production.

Summary of Diversity in the Farm Sector

The typical American farm is hard to define. A substantial portion of the Nation's farmers work full-time off the farm and operate very small farms. These individuals probably have very different policy demands than the less numerous commercial farm operators who depend on farming for most of their income. The specialization that has accompanied advanced technologies and increased sophistication in food production has led to different farm sizes, interstage coordination methods, and financial arrangements for different types of farms. Production of some commodities still takes place on farms as most people think of them, but other subsectors have come to resemble nonfarm industries.

Farm Households and Farm Businesses: How Are They Doing?

The link between the returns to farming as a business and the implications that those returns have for the well-being of households associated with farming has continued to weaken since 1974. This weakening is partly because off-farm income plays an increasingly important role in sustaining most farm households. The growth of off-farm income for households with smaller farms, coupled with the increasingly industrialized, relatively affluent large-farm component within the farm sector, has brought the farm operator population into the American mainstream. Farm household income statistics no longer portray the farm population as a relatively disadvantaged group. Some farm families continue to have income problems, but these problems are not as pervasive as they once were. The growing importance of off-farm

income to farm households implies that, for most farm operator households, public policies that strengthen the rural nonfarm economy are more important to maintaining household income than are farm commodity programs and policies.

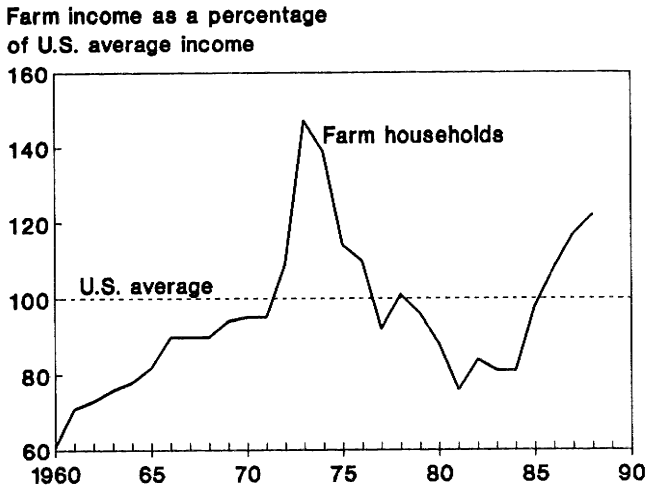
By the end of the 1980's, farm household income had reached parity with that of all U.S. households. On average, farm households are also relatively wealthy compared with nonfarm households. Because farming is capital-intensive, however, farm operators must control substantial assets to generate an income comparable to that of nonfarm families. When we compare farms with other nonfarm businesses in today's economy, we find that the amount of assets needed to earn a reasonable income from farming is comparable to what is needed in most other sole proprietorship and partnership businesses. But, even the largest farms are tiny compared with the average U.S. corporation.

Farm Households Close the Income Gap

The average (mean) income of farm operator households has improved over time and is now comparable to that of all U.S. households (fig. 13). In 1960, the income of farm households from both farm and off-farm sources was about 60 percent of that for all U.S. households. During the 1960's and early 1970's, however, the relative income position of farm households improved steadily, pulling even with and, in some years, even surpassing the national average. This gain was followed by a precipitous drop in the relative income position of farm households in the early 1980's. The recovery from the 1980's farm financial crisis, however, has seen the relative income position of farm households improve, once again surpassing the national average.

Average farm household income is on a par with that for all U.S. households, but the personal distribution of household income reveals differences between the two groups. The 1988 median income for farm households was about 20 percent lower than for all households, supporting the observation that a higher proportion of farm households have low incomes. Nearly 20 percent of farm households had incomes below $5,000 in 1988, compared with 6.2 percent of all households. Twelve percent of the farm households had negative household income. In these cases, positive off-farm income was not sufficient to offset negative incomes from farming. At the other end of the scale, a slightly higher proportion

Figure 13
Income of farm households as a percentage of the U.S. average
The average farm household earned more than the U.S. average during the early 1970's and late 1980's



Source: (*6,16*).

Alternative measures of household income

Data for households come from the March 1989 Current Population Survey, and farm household data are from the USDA 1988 Farm Costs and Returns Survey (*1*). Farm operator household income is net business income (gross cash business income less cash business expenses and capital consumption) plus off-farm income. This measure of farm household income is similar to the CPS definition of household income. The FCRS data produce a substantially lower estimate of farm business income than the USDA Economic Indicators of the Farm Sector (ECIFS) data used to construct figure 13, leading to a lower estimate of average farm household income.

Differences between the FCRS and ECIFS measures of income have not been reconciled yet. ECIFS data do not allow the construction of personal distributions of income, so FCRS data are the only source of such data for farm operator households. Because FCRS data were first reported for 1984, ECIFS is the only data source that can be used to track historical trends in farm household income.

of farm households have a total income of $100,000 or more. Off-farm income is a major component of farm operator household income and offsets low or negative farm income for many farm households. For farm households with positive total income in 1988, off-farm income ranged from a low of 57.4 percent of total household income for those in the $75,000 to $99,999 income class to a high of 212.5 percent for the less than $5,000 income class. One recent study found that about half of U.S. farm households depended primarily on off-farm income for their livelihood, while 40 percent depended primarily on income from farming (*5*). The remaining 10 percent depended on a combination of farm and off-farm income.

Farm operator households have substantially higher average net worth than do all U.S. households. The median net worth of farm operator households in 1988 was over $167,000, while the median net worth of all U.S. households was slightly less then $36,000. This difference reflects the relatively large proportion of farm households with high net worth; over 30 percent of farm households had a net worth of $250,000 or more compared with about 9 percent for all U.S. households.

The relatively large net worth position of farm households is due primarily to the capital-intensive nature of farming. Farmers need a substantial investment in land and capital, either owned or controlled, to earn an income comparable to that of all U.S. households. The operator must share the returns from the business with landlords and other owners of farm capital. The less land and capital that the farm household owns, the larger the total farm business has to be to derive a given income.

We illustrate the capital-intensive nature of farming by looking at financial profiles of three types of farms: corn-soybean, hog, and poultry farms (table 9). The corn-soybean farm was selected as an example of a crop farm that receives much of its gross receipts from Government payments. The hog farm was selected as a livestock farm on which management and decisionmaking control rest with the operator. The poultry farm represents the industrialized, highly integrated type of farming in which a large part of the management and decisionmaking control is shared between the farm operator and the contractor. The farm financial profiles were developed using published FCRS data.

The net farm business income from each farm ranged between about $28,000 and $38,000, a range that includes the U.S. average household income. Total farm business assets for the illustrative farms ranged from about $350,000 for the poultry farm to almost $525,000 for the corn-soybean farm. Farm household equity ranged from 70 to 80 percent. The large values for assets and net worth shown in these illustrative farm profiles are consistent with the relatively large net worth shown for farm households above.

Direct Government payments contributed about 20 percent of the corn-soybean farm's gross cash income, and receipts from the sale of corn and soybeans were 57 percent of gross cash income. The hog farm also received a sizable part of its gross income (over 10 percent) from direct Government payments for corn and soybean production, which were produced as cash crops and also for livestock feed on the hog farm. The sale of hogs accounted for about 60 percent of the farm's gross cash income. On the poultry farm, the farm operator and the contractor shared both the income and operating expenses. About 65 percent of the gross and net cash income generated by the farm accrued to the contractor, along with roughly the same percentage of cash operating expenses.

At least two caveats apply in considering these comparisons. First, most farmers are older than the average person in the United States--the average age of farmers was 52 in 1987. Because most people increase their net worth as they grow older, usually peaking in one's late fifties, comparison of 50-year-old farmers with a younger nonfarm population exaggerates the apparent wealth advantage of farmers. The median net worth of households headed by a person age 55 to 64 in 1984, $74,000 ($83,000 in 1988 dollars), was more than twice the average for all ages. However, this figure is still substantially less than the median net worth of farm households. Income also increases with age, but not as much as net worth. Income of 55- to 59-year olds is about 20 percent higher than the overall average. Thus, the comparison of farm household and all U.S. household income may understate the income differences between farmers and nonfarm people of comparable age.

Comparing self-employed farmers with nonfarm households who are primarily working for wages may be misleading. The wealth of farmers is necessary for them to be able to work as farm operators. The assets of a farm operation are combined with other family assets. This situation contrasts sharply with that of nonfarm families dependent on wage and salary income for family living. Beyond housing, the wealth of a wage-earning household is generally a

source of additional income unrelated to a job. A more complete comparison is achieved by also comparing farms with other small businesses.

Farms Compared with Nonfarm Businesses

Farms account for a significant portion of the Nation's small businesses. Farms made up 23 percent of all sole proprietorships and 8 percent of partnerships in the United States in 1980, the last year for which Internal Revenue Service data (*21*) on farm proprietorships were published (table 10).[4] Farms also accounted for about 19 percent of sole proprietor business receipts and 7 percent of partnership business receipts. Most business activity in the United States, however, is conducted by corporations, which produced over $5,750 billion of business receipts compared with $375 billion for proprietorships and $506 billion for partnerships. Farms make up only 2 percent of all corporations and account for 0.5 percent of corporation sales. Thus, farms account for a significant portion of small business activity, but their direct role in the economy as a whole is small.

Farming has large numbers of small producers, but so do other industries. Eighty-four percent of sole proprietor farms and 82 percent of other proprietorships had sales of less than $50,000 in

[4]Since 1980, the direct role of farms in the economy has shrunk further. The number of farms fell by 10 percent between 1980 and 1988, and gross receipts adjusted for inflation fell 15 percent (*16, 17*). IRS tax return data show a substantial increase in the number of nonfarm proprietorships, partnerships, and corporations between 1980 and 1986. Inflation-adjusted receipts increased for proprietorships and partnerships and declined slightly for corporations.

Table 9--Financial profiles of corn-soybean, hog, and poultry farms, 1987
To earn a net income from farming equivalent to the average U.S. household requires an investment of $350,000-$500,000

Item	Type of farm		
	Corn-soybean	Hog	Poultry (1988)
		Dollars	
Total gross cash income	142,427	185,472	328,185
Contractor share	0	0	216,113
Operator share	142,427	185,427	112,072
Government payments	28,480	20,113	0
Commodity receipts and other farm income[1]	113,947	165,359	112,072
Total cash operating expenses	97,519	139,296	179,516
Contractor share	0	0	114,823
Operator share	97,519	139,296	64,693
Net cash income	44,860	46,176	148,669
Contractor share	0	0	101,290
Operator share	44,860	46,176	47,379
Operator's capital consumption	17,032	16,349	8,899
Net farm business income of operator	27,828	29,827	38,480
Total farm assets	522,456	443,495	355,989
Total operator debt	114,288	135,238	80,931
Farm operator net worth	408,168	308,257	275,058

[1]Includes receipts from sale of all commodities produced on the farm.
Source: (*7,8,12*).

Table 10--Importance of farm businesses in the U.S. economy, 1980[1]
Farms account for a significant portion of small businesses but a small portion of total sales of U.S. businesses

Item	Unit	Type of industry	
		Farms[2]	Other
Proprietorships	*Number*	2,971,578	9,730,019
Share of total	*Percent*	23.4	76.6
Sales	*Million dollars*	94,679	411,206
Share of total	*Percent*	18.7	81.3
Partnerships	*Number*	108,094	1,271,560
Share of total	*Percent*	7.8	92.2
Sales	*Million dollars*	19,174	266,793
Share of total	*Percent*	6.7	93.3
Corporations[3]	*Number*	55,000	2,710,538
Share of total	*Percent*	2.0	98.0
Sales	*Million dollars*	27,417	5,731,616
Share of total	*Percent*	.5	99.5
All business entities	*Number*	3,134,684	13,712,117
Share of total	*Percent*	18.7	81.3
Sales	*Million dollars*	141,270	6,299,855
Share of total	*Percent*	2.2	97.8

[1] 1980 is the last year for which farm proprietorship data were published.
[2] The number of income tax returns reporting farm income exceeds number of farms based on official farm definition.
[3] Number of farm corporations is estimated based on census of agriculture data.
Source: (*21*).

Data for farm-nonfarm business comparisons

The comparisons of farms and nonfarm businesses shown here use data from the Internal Revenue Service (IRS) Statistics of Income publications for sole proprietorships, partnerships, and corporations (*21*). The data are drawn from a sample of each year's business income tax returns and are the only source of comprehensive financial data on small businesses.

Because the data are from tax returns, they are not fully comparable to the farm income and balance sheet data used elsewhere in this report. The IRS data are expected to overstate expenses and understate assets because assets are reported at book value (net of depreciation) rather than market value. Nevertheless, the IRS data are useful for comparisons of different types of businesses.

1980 (fig. 14). Forty percent of farm partnerships and over 50 percent of nonfarm partnerships had sales of less than $50,000. Although corporations are more equally distributed across sales classes, the largest number of corporations had less than $50,000 in sales (farm corporations are not tabulated separately). The distributions of firms across other sales classes is also similar for farms and for nonfarm proprietorships and partnerships.

Small firms are numerous, but they account for a small share of business activity. Farm proprietorships with sales of less than $50,000 accounted for 27 percent of all farm proprietorship business receipts in 1980, and the share for equivalent nonfarm proprietorships was 20 percent. The business receipts of all corporations with less than $50,000 in business receipts in 1980 accounted for only 0.2 percent of all corporate receipts.

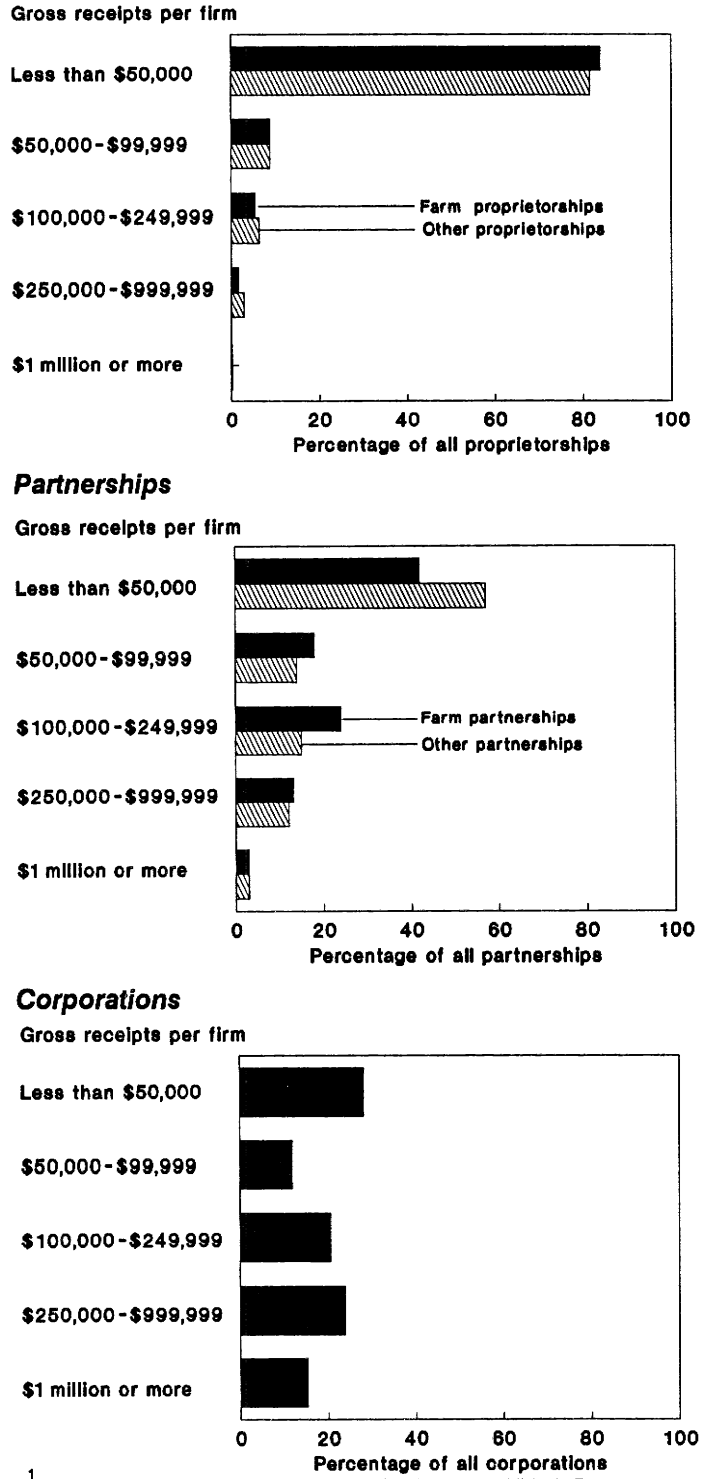
Midsized Farms Receive a Return on Assets Comparable to Nonfarm Businesses

Many in the farm community are concerned that the advantages associated with larger farms will put pressure on farms to continue expanding farm size. Figure 15 compares the total cash return on assets for farm and nonfarm partnerships of different sizes. The return on assets is computed by adding depreciation and interest expenses to net income reported on income tax returns and dividing by the value of assets. Because the data are drawn from tax returns, the accounting methods probably understate actual net income. There is no information on assets for sole proprietorships from tax return data because such information is not required on Schedule C or F of IRS Form 1040.

The return on assets declines as asset value increases for both farms and nonfarm partnerships. Nonfarm partnerships receive higher returns among those with $10,000 to $49,999 assets. Farms and nonfarm partnerships with assets valued at $50,000 to $1 million receive roughly equal returns on assets, but farm partnerships with $100,000 to $499,999 assets have returns that are 3 or 4 percentage points higher than nonfarm partnerships of that size.[5] Most farms have $50,000 to $1 million in assets, so the data suggest that the assets employed by these farms obtain a reasonable return for owners and lenders compared with what they could earn elsewhere.

[5]Partnership income data may be tainted by the fact that many partnerships, especially large ones, are tax shelters. Sole proprietorship data also show most farms with very large sales experiencing net losses.

Figure 14
Distribution of proprietorships, partnerships, and corporations, by gross receipts, 1980
Both farm and nonfarm industries contain high proportions of small firms[1]

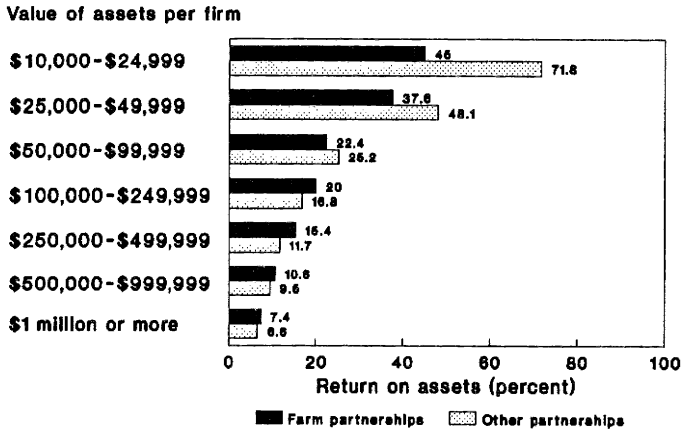


[1]1980 was the last year in which farm proprietorship data were published. Farm corporations are not reported separately in published data.
Source: (*19*).

Figure 15

Return on assets by firm size for farm and nonfarm partnerships, 1980

Midsized farms receive a return on assets comparable to nonfarm businesses of similar size[1]



[1]Return on assets is reported net income plus interest and depreciation divided by total assets.

Source: (*21*).

Farms Are Small Compared with Other Businesses; Net Returns Are Higher than Some Industries, Lower than Others

Many industries have large numbers of small firms, but very large firms are generally more common in nonfarm industries than in farming. A comparison of farm partnerships with nonfarm partnerships shows that, on average, farms have fewer assets than firms in all major industries except wholesale and retail trade (table 11). On average, farm partnerships generated only $62,042 in gross receipts in 1987, much lower than in any nonfarm industry, where average receipts ranged from $169,043 to $958,283. In most cases, the value of farm assets and receipts is considerably lower than nonfarm industry averages for partnerships. The average size of a corporation, over $4 million in assets, dwarfs the average asset value of farm partnerships, $167,673.

Farms generate relatively little gross revenue from their assets. Farms earned 37 cents in gross receipts per dollar of assets in 1987, lower than for all other industries except the categories of finance, insurance, and real estate and other land- and capital-intensive industries such as mining and motels. However, farms have relatively low current expenses, so net returns are comparable to those in other industries. Net cash return (net income before depreciation charges) for farm partnerships amounted to 10 cents per dollar of assets, exceeded only by partnerships in services (20 cents), construction (17 cents), and wholesale and retail trade (13 cents). Corporations earned a generally lower rate of return of 5 cents per dollar of assets.[6]

We further compared farms with industries that typically have many small businesses run by individuals or families (table 11). Most of these are service or retail industries and have comparable or lower value of assets (except motels, which average over $1 million of assets) and greater gross receipts. Both gross and net returns are greater in all these small business industries except motels, which have lower returns. The highest net returns are for plumbing, heating, and air conditioning (53 cents per dollar of assets) and medical services (45 cents). Other industries' net returns range between 19 and 27 cents per dollar of assets, compared with 10 cents for farms.

Farms appear to earn a rate of return comparable to other land-intensive industries, but lower than firms in service or retail-oriented industries. Most partnerships (except those in finance, insurance, and real estate and mining) earn higher net returns than corporations, which are usually much larger than farms. This finding is consistent with the negative relationship between return on assets and firm size found above.

Farms Earning Median Family Income Have Asset Values Comparable to Those of Most Other Businesses Earning the Same Amount

Because of the relatively low average returns for farms, do farmers need to have greater asset values than operators of nonfarm businesses to earn comparable income? To address this question, we compared the average asset values across industries for partnerships earning between $30,000 and $39,999 per year in net cash income, a range that includes the median U.S. household income of about $33,000. The value of assets for such partnerships ranged between $100,000 and $175,000 for five of the eight industries, including farming at $161,475 (table 12). Wholesale and retail trade had the lowest value ($80,985), and finance, insurance, and real estate and services had substantially higher values. This comparison suggests that farms do not need a larger

[6]Because corporations are generally much larger than partnerships, the lower return earned by corporations is consistent with the pattern of declining rate of return with firm size shown earlier in this report.

Table 11--Comparison of size and returns between farms and other businesses
Farms generate lower gross returns on assets than most other businesses, but their net returns are comparable

Industry	Assets per firm	Gross receipts per firm	Gross return on assets[1]	Net cash return on assets[2]
		Dollars		
Partnerships, 1987:				
Farms	167,673	62,042	0.37	0.10
Major nonfarm industries--				
Mining	1,193,026	288,797	.24	.03
Construction	273,651	431,475	1.58	.17
Manufacturing	893,121	958,283	1.07	.05
Transportation, communications, and utilities	1,407,874	681,618	.48	0
Wholesale and retail trade	141,264	387,268	2.74	.13
Finance, insurance, and real estate	1,257,577	169,043	.13	0
Services	429,341	418,204	.97	.20
Selected small business industries--				
Plumbing, heating, and air conditioning	54,573	232,198	4.26	.53
Trucking	109,668	131,524	1.20	.22
Foodstores	74,971	386,294	5.15	.20
Service stations	170,212	1,029,800	6.05	.22
Eating places	129,041	313,725	2.43	.19
Motels	1,364,938	506,648	.37	.01
Personal services	52,206	110,670	2.12	.26
Auto repair	81,985	145,454	1.77	.27
Medical services	277,788	491,408	1.77	.45
All corporations, 1986[3]	4,131,000	2,634,440	.61	.05

[1]Gross receipts divided by total assets.
[2]Net income plus depreciation divided by total assets.
[3]Data for corporations are expressed in 1987 dollars.
Source: (*21*).

value of assets than nonfarm business operators to earn a comparable income.[7]

Farms Are Relatively Capital-Intensive, Use Relatively Little Labor

Although farms are not large compared with businesses in other industries, they are relatively capital-intensive. Modern farm production requires relatively little labor and large amounts of land and machinery. Each farm worker, on average, works with about $100,000 worth of assets (fig. 16).[8] This amount is substantially larger than in construction, manufacturing, wholesale trade, retail trade, and services, but less than in mining and transportation, communications, and utilities. Because of the small size of farm assets and the low ratio of farm labor to capital, farms have relatively little direct effect on the economy in generating employment. The effects of farms on employment are mostly indirect, generating jobs in farm input supply industries and the marketing of farm products.

Summary of Farm-Nonfarm Comparisons

The diversity of the more than 2 million farms that make up the farm sector precludes a sweeping

[7]The value of farm assets is much lower than average asset values in the farm profiles of the preceding section, because these data are 7 or 8 years older, because they are based only on partnerships with $30,000 to $39,999 net cash income, and because the value of assets is reported at book value rather than market value in IRS data. The surprisingly high value for services is probably due to the inclusion of hotels in this category. Hotels have much larger asset values than other service partnerships and account for about one-fifth of asset value for all service partnerships.

[8]Farm data are for 1985, computed by dividing total assets (*16*) by total operators, family, and hired workers (*13*). Data for other industries are for 1982 from *Statistics of Income* MATCH file (*21*). All dollar values are deflated to 1982 dollars using the GNP implicit price deflator (*6*).

Table 12--Average assets of partnerships earning $30,000 to $39,999 net income before depreciation, 1987

To earn an income equivalent to the U.S. average household income, farms do not need more assets than nonfarm businesses

Industry	Assets per firm
	Dollars
Farming	161,475
Mining	154,405
Construction	100,352
Manufacturing	172,478
Transportation, communications, and utilities	116,124
Wholesale and retail trade	80,985
Finance, insurance, and real estate	538,300
Services	373,876

Source: Special tabulation by Internal Revenue Service.

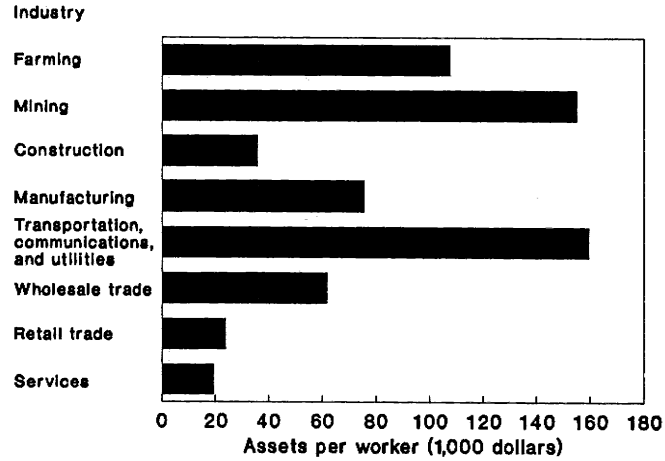
conclusion about how farms are doing compared with the rest of the U.S. economy. However, the data indicate that farmers as a group are not worse off than nonfarmers and their households. A substantial minority of farm households faces an income disadvantage (about 400,000 farm households have incomes of less than $5,000), and many farm households are highly dependent on income from off-farm sources. However, farm households have greater wealth than nonfarm households, as today's full-time farm operations require large amounts of assets, most of which are owned by the farm operators themselves.

Some observers often express concern about the increasing size of farms threatening the survival of the traditional family-owned and -operated farm. But,

Figure 16

Assets per worker for farming and other industries

Farms generate little direct employment because they have a fairly high level of capital per employee



Source: (*13,16,22*).

when we compare farms with nonfarm businesses in today's American economy, we find that farms are generally much smaller and play a small direct role in the economy. Even the largest farms are tiny compared with the average U.S. corporation. Many small farms account for relatively little output, a situation typical of other industries where small businesses are common. The limited available data also show that farms appear to earn returns comparable to those earned by other small businesses. We found that the amount of assets needed to earn a reasonable income in farming is comparable to what's needed in most other industries, and less than in other real estate-based industries.

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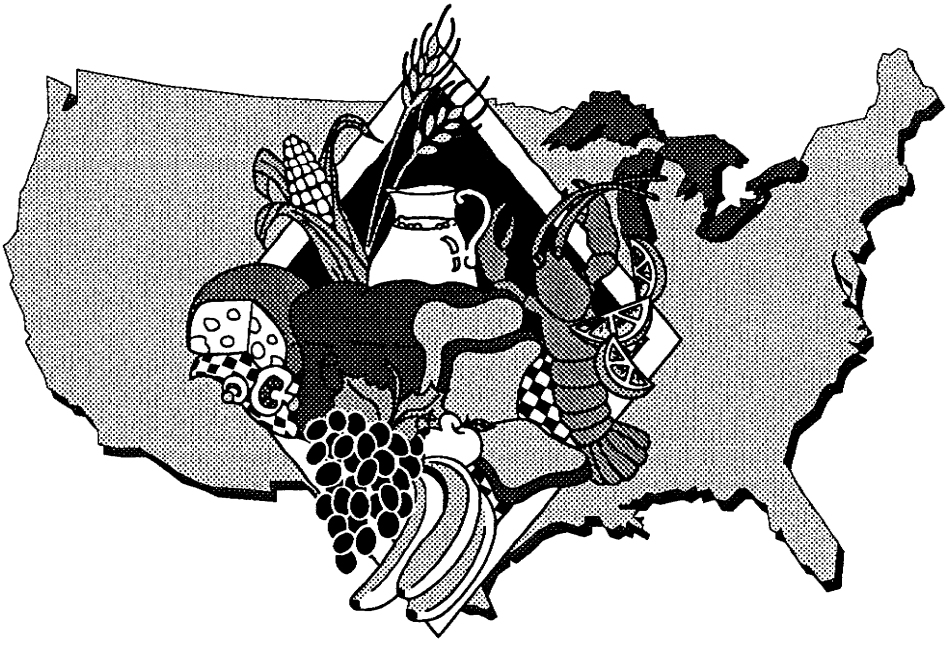

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