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Centre for Agricultural Strategy



Smallfarmers' Association

Strategies for family-worked farms in the UK

Edited by R B Tranter

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3 Family farm policies in the European Community: are they appropriate for the UK?

A Harrison

INTRODUCTION

In spite of the fact that farms throughout the EC have become bigger over recent decades they are, more than ever, run as family units. Nowhere, except on UK farms, is a hired labour force of major significance. Nowhere, except in the UK, does a landlord class (personal or institutional) make a contribution of any importance to the supply of capital over and above that provided by the farmer, his more immediate family and those from whom he borrows.

The current arrays of farm businesses are the outcome of essentially the same sort of internal structural transformations in all member states. Numbers everywhere have fallen dramatically. Almost without exception, the smaller the farms, the bigger have been the percentage falls in numbers, the larger the farms, the bigger the percentage rises in numbers.

That the overall changes in numbers have been remarkably uniform throughout the member states can be readily seen from Table 1. The only exceptions are Ireland where there have been extremely modest reductions and Denmark where the rate of decline has slackened in more recent years. Everywhere else numbers of farms in 1979 were 70% or so of what they were in 1970 and in many cases about a half of what they were in 1965.

Because of changes of definition, numbers of holdings for any single country are not strictly comparable between years (especially in the earlier part of this period). There are definitional differences between countries also. Up to 1975, numbers for Belgium and the Netherlands embrace all units of 10 standard farm units (or one tenth the size of a full-time farm) and upwards regardless of

cultivated area, those for Denmark 0.5 ha and upwards, those for Ireland 0.4 ha and upwards, those for UK 0.1 ha and upwards while those for Italy and Germany are for 1 ha and upwards (although 62 800 holdings in West Germany were smaller than that in 1970 and some 40 000 towards the end of the 1970s).

Table 1
Number of holdings⁷ in the EC, 1965, 1970, 1975, 1979

	1965		1970		1975		1979	
Belgium	123	225 189	100	183 095	78	142 800	53	97 000 ⁵
Denmark	140	196 100 ¹	100	140 200	91	127 600	86	120 000
France	121	1 918 000 ²	100	1 588 000	84	1 333 900	69	1 103 000
Germany	134	1 451 600	100	1 183 100	84	933 800	68	807 000
Ireland	101	283 456	100	279 450	97	271 100	93	260 000 ⁶
Italy	120	4 294 000 ³	100	3 591 000	74	2 657 300	61	2 192 000 ⁶
Luxembourg	118	9 002 ⁴	100	7 608	82	6 200	66	5 000
Netherlands	143	264 339	100	184 613	88	162 500	72	132 000
UK	133	437 900	100	328 700	87	286 000	79	260 000

1 1960

2 1963

3 1961

4 1966

5 1978

6 1975

7 Actual and Indices (1970 = 100)

Source: CEC (1982c).

Nevertheless, as can be seen from Table 2, these common patterns of adjustment to changing circumstances have by no means removed all the structural differences between countries. Only in the UK and Luxembourg are there more holdings of 20 ha and over than there are of less than 20 ha so that, striking as the developments towards fewer and larger holdings have been, everywhere (including the UK) small-scale producers are still numerically dominant. Scarcely any member (except the UK) has even 10% of its holdings of 50 ha and over; Belgium, Germany, Italy and the Netherlands have 10% or less in excess of 30 ha each.

In the context of Western Europe, the large number of holdings in the UK of over 500 ha (and indeed over 100 ha) each is exceptional. Nevertheless such

Table 2

The distribution of holdings by size, EC, 1979 (per cent)

	1-5 ha	5-10 ha	10-20 ha	20-50 ha	>50 ha
Belgium	29.1	20.6	26.8	19.7	3.8 ¹
Denmark	11.3	18.1	26.8	34.2	9.6
France	19.4	14.9	21.2	31.0	13.5
Germany	32.1	19.0	23.1	22.1	3.7
Ireland	17.3	18.2	31.1	26.0	7.4 ²
Italy	68.5	17.2	8.4	4.2	1.7 ³
Luxembourg	19.5	11.1	15.0	39.1	15.3
Netherlands	24.7	20.5	29.3	23.2	2.8
UK	14.5	12.5	15.5	26.2	31.3
EC ⁴	42.9	16.9	16.5	16.9	6.8

1 1978

2 1975

3 1977

4 Total number of holdings, 5 808 800

Source: CEC (1981).

figures, striking as they are, provide only part of the picture; and from many points of view, the part revealed is the less important one. Within the UK large-scale farming is virtually confined to England while other parts face small-scale problems of varying types and degrees of severity, often depending on whether or not they are part of the 30% or so of holdings (more of the smaller) which are run by someone with another source of earned income. And that, more often than not, from a second business.

It is often acknowledged that it is the emphasis on product price support which has favoured larger farms and which has brought about the structural transformation which has just been outlined. Certainly it would be a serious mistake to imagine that structured reform has been the outcome of sustained consistent policy measures aimed at reducing numbers. On the contrary, national policies have been designed to keep farm numbers up not to reduce them. Although there have been from time to time calls for structural legislation and other measures to reduce dramatically the numbers of people involved in farming, these have not led to sweeping reforms nor to effective legislation. Moreover, any funds devoted to such policies have been extremely modest.

In particular, efforts to accelerate the out-migration of farmers while hopefully cushioning them from associated hardships, through the application of early retirement Directive 72/160 have not been energetically applied anywhere. In some cases like Denmark and Italy they have not been implemented at all; in others, like Ireland, they have been demonstrably inferior to retirement and welfare legislation already available to society in general. Nowhere have structural reform measures had a major impact on the pace of adjustment of farm numbers.

Measures employed in the member states to limit the sizes of individual farm businesses and facilitate directly the survival of the smaller take many forms and have far reaching implications. They tend to be administratively complex and are often not well understood even by those to whom they relate most directly. They are of three types; first, measures which set limits on the amount of land which may be owned or the amount of land which may be farmed by one person; second, land reform type measures which are designed to influence and even control completely the distribution of farmland between individuals; third, measures which, mainly, but not entirely, by granting inheritance tax privileges, make it easier for some farms (usually those under close family ownership) to overcome inter-generation financial and management transfer and control problems.

To describe and discuss those measures in anything like their totality would go well beyond the scope of this paper. A fuller account is provided by Harrison in CEC (1982c) and in the national studies in the same series on which that CEC Report is based. The information presented in this paper is a slightly updated version of that contained in those reports.

LEGISLATION DESIGNED TO INFLUENCE FARM BUSINESS STRUCTURE IN THE DIFFERENT MEMBER STATES PARTICULARLY BY RESTRICTING RIGHTS TO OBTAIN AND RIGHTS TO USE LAND

The most direct and far reaching efforts to control farm sizes and to influence the selection of farmers apply in Denmark. Since the end of the 1950s companies and institutions have been precluded completely from buying land in order to engage directly in commercial farming. Correspondingly, private individuals have for over 30 years been severely restricted in the amount of farmland they may buy. On-the-farm residence has been obligatory since 1973. Not more than 100 ha may be rented even where some form of joint management operates. Would-be purchasers must be over 18 years old and not pursue farming as a secondary and minor occupation; additionally they must furnish evidence that they have received proper training either on a Farmer

Training Scheme sponsored by the Federation of Danish Smallholders' Union or from some other competent source.

What tends not to be realised is that, only as recently as January 1980, there was legislation in Denmark which brought down the upper limit on size of farms from 100 to 75 ha and that, at that time, the Minister of Agriculture was seeking to impose a ceiling of 50 ha. Moreover the Irish — whose Land Commission pursues a programme of Land Reform which has reduced the flow of farmers out of the industry — have also considered seriously (but in the end rejected) legislation to impose strict selection criteria along Danish lines on would-be entrants to farming.

Similar basic political sympathies colour thinking in West Germany also, although little more than strict monitoring of the land market is practised. Nevertheless, smaller-scale land ownership is still seen as positive from a socio-political standpoint. All transactions in land are settled under the Real Property Transactions Law and only when all conditions have been met may the transfer of ownership be entered in the Land Register. Although West Germany's administrative machinery is capable of the sort of far-reaching control of farm business structure that is achieved in Denmark, it is not used in practice in that way but is limited to refusing to sanction transactions where prices are excessively high (although objections will be waived if 'outside' funds are involved) or where poor farm structure would otherwise result.

The approach in West Germany stands in marked contrast to that adopted in France where a limit is placed not on ownership but on the amount that may be farmed *cumuls et réunions d'exploitations*. However, not only has the legislation been described as 'vague and complicated', but, in the last resort it is claimed, 'The only force that matters is neither the administration nor appeals tribunals, it is the weight of the agricultural organisations and of farmers themselves banding together to prevent this or that example of concentration' (CEC, 1982a). This is very different from the rigorous application of Prefectural rules to *cumuls de profession* which come into play (although only rarely) where persons not already engaged in farming are involved.

On first inspection, the French SAFERs appear to pursue aims opposed to the legislation dealing with *cumuls* since they are designed to bring about a better farm structure (that is larger farms) and greater land mobility. However, their powers to purchase, retain and let, and generally influence the market in land are more circumscribed than originally envisaged. They have serious financial restrictions placed on them and they have no preemption rights where transactions are between family members, where a farmworker is involved, or where a sitting tenant proposes to exercise his preemption right. Additionally moreover, SAFERs in some regions do not see themselves as required to assist

the development of only larger farms but an important, if not major, number argue that their task is to seek to establish medium-sized family units.

In Ireland and Italy, interference in market arrangements for effecting transfers of farmland and control over the tenancy arrangements landlords and tenants may make with one another are so strict, and pursued within so comprehensive an ideological political and economic framework, that they amount to programmes of land reform. In Ireland such laws are administered by the Irish Land Commission which, although established in 1881 only to fix rents, subsequently acquired powers to obtain and redistribute land. Its primary aim was to get rid of landlords who in most cases were British in outlook, nationality and religion and often not resident in Ireland. With such aims initial popularity was assured and its task virtually accomplished in 1923 when, on achieving independence, the Irish Government compelled those landlords that still remained to sell to their tenants.

Since then the Commission has bought land to sell to smaller farmers with a view to relieving the pressure on land in identified 'congested' areas. Although it has aimed to create viable holdings, in most cases it has failed to meet even a relatively modest viability threshold and has therefore tended to reduce the impact of market forces and to slow down the rate of farm-size adjustment and out-migration of farmers from the industry.

In Italy the wide ranging legislation bearing directly on land ownership and tenure quite clearly constitutes a full-scale programme of land reform aimed at operator ownership, but is also closely linked with programmes of farm equipment and consolidation and the provision of more general rural infrastructure and works designed to improve the socio-economic status of the more disadvantaged peasant farming classes (wage-earning and day labourers, tenant farmers and share croppers).

In practice, the Italian land reform authorities have not had the political will to identify in concrete terms the size of the minimum cultivation unit they were seeking to establish and the legislation is far from having established an overall distribution based on a viable minimum. Only small amounts of land (2 ha or so on the average) have been involved in individual transfers but, between 1948 and 1975 about a million owner-occupied farms covering almost 2.5 million ha were affected.

Elements of the Italian land reform programme take on the character of fiscal measures of the sort favouring small family farms which are to be found in all member states. However, legislation in Italy goes far beyond the scope of measures found elsewhere; its areal norms are smaller, legislation more minute in coverage, political ideals more left wing, and in the final resort, professionally inward looking and exclusive.

FISCAL MEASURES AIMED AT ASSISTING THE SURVIVAL OF SMALLER FARMS

In their totality, tax privileges accorded to operators of small family farms are complex in the extreme and, in terms of their ultimate effective incidence, impossible to establish. Nevertheless, such legislation is clear in its overall aims and reveals a number of common elements. First, farmers are relatively lightly taxed, both on income and, on capital account within close consanguinity groups of owner-occupiers seeking to make inter-generation transfers of farmland and farm businesses. Second, tenancy laws everywhere, with the important exception of Germany, favour tenants and penalise landlords.

Consider the case of Ireland. Acquisition Tax there has replaced Death Duty and applies to property passing by way of lifetime gifts as well as on inheritance (at death or within two years of it). The top range of tax is 60% with gifts being charged at 75% the rate for inheritances. However, dwellings and land are assessed at only half their market value and members of the immediate family do not become liable for tax on receipt of gifts of less than £150 000. More distant relatives are granted much smaller concessions on acquisition. The upshot is that, at 1978 prices, no Acquisition Tax would have been leviable on a 50 ha farm being inherited by a widow with two dependant children and only 7.6% on a 75 ha one.

The incentive to make lifetime transfers under Acquisition Tax is not great and tends to fall on deaf ears in Ireland anyway where intestate transfers are the rule rather than the exception. Any immobilising effect has been further reinforced by the replacement in 1978 of the 26% flat rate of CGT with one tapering from 30% on very short term possession to zero after 21 years possession. Assets and improvements are now indexed to the Consumer Price Index in calculating taxable gains.

In Ireland, France, Germany, Belgium, Luxembourg and Italy farm incomes which are taxed on a notional standard income basis are the rule, those taxed on a fully accounted basis are the exception. In Ireland taxable income is worked out on the basis of land valuation together with assessed average income less certain allowable charges. In Belgium and Luxembourg it is based on prescribed scales (net of allowable expenses) for the different tenure farms region by region. In Germany the corresponding assessment is based on five elements — basic income, unpaid family work, the value of the dwelling, off-farm earnings and rents received. In France only the most prosperous, and very small, minority are required to furnish accounts for taxation purposes and some two-thirds of those need do so in only a simplified form — the so called *mini-réel*. In all countries taxation is light and hence the overall element of subsidy from the rest of society is large. With marginal tax rates tending to

be zero, the incentive to seek extra production is maximised.

In Denmark, the Netherlands and the UK essentially the same rules apply for calculating farm incomes as apply for calculating incomes in general for taxation.

As in other member states, the tax on inherited wealth in Denmark is greatly reduced when close family relationships are involved. The range of persons regarded as 'closely related' is more strictly interpreted where inheritance is involved than where the transfer takes the form of a gift. In Belgium (and Luxembourg) duties leviable on inheritances and on gifts, on which the same basic rates apply, are much lower on direct than on indirect line transfers. For example, a farmer inheriting a 20 ha farm from his brother would be required to pay 50% tax whereas if he were inheriting from his father the rate would be only 7.5%.

In the Netherlands there is no capital gains tax but a flat rate capital tax of 0.8% which although low has, nevertheless, as a result of rising land prices and the failure to adjust tax thresholds correspondingly, given rise to increasing tax assessments. Land is valued for taxation as if it were rented and within-family transfers of farmland are probably made at values around a half those obtaining in the vacant possession market. Nevertheless, proposals have been made (though as yet not successful), designed to free farm capital from taxation so long as it is employed in a personal holding. The major problem there (as elsewhere) is the need to tax only real gains without bestowing new privileges on owners of farmland which thereby add further to price increases. Moreover, there is growing concern that what is required is not more tax concessions on land transfers but fewer. As an Irish Government Green Paper put it, 'It can be argued that the present level of rates relief on agricultural land provides no incentive to boost agricultural output. Holding land costs the majority of landholders little or nothing and so the question of producing more, or selling the land or leasing it to someone else who would make better use of it . . . hardly suggests itself' (CEC, 1982b).

In Germany, death duties are levied on properties passing at death and gift duties on transfers *inter vivos*. The tax rate applied depends on the degree of relationship involved as well as on the value of the property being transferred. Acquisitions are totalled over 10-year periods and allowances can be fully used up every 10 years. Four degrees of relationship are recognised embracing spouses and children; grandchildren; parents, siblings and nephews and nieces; other. Overall rates can be as low as 3% and as high as 70%. As in Ireland and in other member states the overall effect of such legislation is further to increase land immobility.

Just as France through its SAFERs has devised new measures to improve the functioning of the market in farmland so it has innovated with *Groupements*

Fonciers Agricoles (GFA) to assist smaller farms to survive transfer from one generation to another. GFA are *sociétés civiles*, that is, they are not trading companies; they date from the late 1970s and are designed to provide an element of landlordism where it will help ensure the continued existence of some owner-occupied farm which faces transfer problems which threaten its financial viability.

Members of GFA are usually real persons although SAFERs have been allowed (since 1974) to become short-term (less than 5 years) minority share (less than 30%) members. Members may subscribe either cash or real estate; the main advantage of membership of a GFA whose land is let long term is that shares are assessed at only a quarter of their value for succession purposes. From time to time the proposal that even more favourable notional agricultural values of land should be used is put forward.

Although GFA cover a range of sizes, most are set up by, and on behalf of, families. They can be created before parents retire and leasehold arrangements settled for whoever is going to take over. Problems tend to arise over the valuation of the separate parts inherited by the various heirs and over finding suitable purchasers to buy out any heir who does not wish to contribute his share of the farm property to the GFA. Family GFA can be formed after the parents' deaths. In certain circumstances majority coinheritors can insist that a GFA be formed. However, where that happens, minority shareholders have the right to insist on being paid out. Another type of GFA is the mutual, formed by farmers to take over from a selling landlord, so as to ensure the continuation of a farm on a rental basis where the sitting tenant is not able to make the purchase on his own.

It is important to realise that GFA in France operate in a context of marked antipathy towards farm landlordism especially where it is large scale. 'Land to the tiller' has long been the rallying call. But France is by no means alone in displaying such antipathy; legislation everywhere (except in Germany) reflects similar attitudes. The result is that tenancy arrangements do little if anything to increase land mobility or to broaden the field of management recruiting in farming. It is another facet of family farm support machinery which narrows even further the field from which capital and management are obtained and serves to reinforce therefore the circumscribing effects of the measures already described.

LANDLORD-TENANT LEGISLATION IN THE MEMBER STATES

As we have seen, Italy and Ireland pursue land reform policies which have left little or no room for farm landlordism. Moreover, although officialdom in Ireland is now more sympathetically disposed to the notion of renting farmland than in the past, it has produced little in the way of positive change, while in Italy, the

cumulative build-up of anti-landlord measures has in the end been declared contrary to the Civil Code. In Denmark not only are institutions not allowed to own land for the purpose of commercial farming, but the fact that official use of the term 'farm tenancy' is limited to denoting whole-farm renting while 'land tenancy' is restricted to the rented portion of mixed tenure situations, reflects the inferior status which renting farmland tends to be accorded.

Only in Germany is renting farmland positively encouraged. Everywhere else landlords have virtually no powers of repossession, tenants have security for their successors in addition to their own lifetimes and fully enforceable preemption rights. Indeed, in Italy such rights extend to neighbouring owner-occupiers where the tenant at lease is not in a position to utilise them. In Belgium-Luxembourg and the Netherlands rents are subject to comprehensive and strict control.

Legislation of such severity goes well beyond that which applies in the UK, where we, with our long tradition of estate ownership and management and participatory landlordism, have stopped short of controlling rents and granting tenants preemption rights. Moreover, the general thrust of recent debate regarding proposed legislation has favoured reviving the landlord-tenant system with a view to achieving the following goals:

- (i) to add to the number of (smaller) farms;
- (ii) to increase land mobility;
- (iii) to widen the socio-economic groups from which farmers are recruited.

That such goals feature in the thinking of some administrators, academics, farmers and others involved in the industry can be readily confirmed by reference to the deliberations of the Northfield Committee (MAFF, 1979) and the debate to which it gave rise. That they do not command such widespread assent as significantly to have altered the general tenor of legislation against landlordism is no less readily evident from that Committee's work and the legislation to which it gave rise. In the end little beyond the exhortative has appeared.

CONCLUSIONS

The various measures which have been described in the four preceding sections of this paper have been covered in outline only. Nothing has been said about regional variations relating to upland and other areas of low farming potential, about credit, marketing and cooperation linked measures bestowing particular benefits on smaller, family run farms or about schemes designed to encourage younger people to enter and stay in farming. But enough has been said to indicate the vastness and complexity of measures which, one way and another, help family farms.

It might be thought surprising, therefore, that little concrete evidence is to

hand to justify such measures. Instead it is evident that the reasons such policies have been pursued is that they command (or at any rate have hitherto commanded) widespread political support. Partly this is because large numbers of people have benefited from them directly. Partly it is because such policies have a profound historical, nationalistic, almost jingoistic, appeal.

Britton & Hill (1975) in their work on scale and efficiency suggest that, on more narrowly factor efficiency grounds, a significant proportion of continental farms are not justified, while their work on tenure and efficiency suggests that owner-occupied farms are not more, but less, efficient than rented ones (Britton & Hill, 1978). Moreover, that is the conclusion reached by agricultural economists in other member states also since Britton & Hill's work was published, although their samples are much less respectable statistically speaking than Britton & Hill's, modest as it was.

If we are to justify such policies, therefore, we must not do so on more narrowly efficiency and factor use grounds. And, even if we envy our continental neighbours their good sense in choosing to tax capital on a recipient and not a donor base (thereby tending to forge a stronger identity of interest between the individual and society at large in seeking a more egalitarian distribution of wealth), we need to bear in mind that we have had the benefit (historically speaking) of a tradition of primogeniture while they have been more profoundly affected by, and need to redress the effects of, the fragmenting Napoleonic Code.

However, although a fully documented case for family farming is not already made out, a very appealing one can be advanced in broad social terms. It rests on four basic claims. First (it is argued), smaller farms absorb economic misfortune within their own ranks as it were, while larger ones (like their industrial counterparts) tend to pass it on to the remaining members of society. Cyclical movements within the industry lead to redundancies of labour and to capital withdrawal; supply interruptions become more disruptive. Second, smaller farmers result directly in a larger rural population so bringing about a more efficient use of social capital and rural infrastructure. Third, smaller farms are less likely to produce, collectively, a monocultural pattern of farming, and are more likely, therefore, to produce an aesthetically pleasing landscape and an environmentally less polluting industry. Fourth, smaller farms stimulate initiative, independence and innovation and contribute to the wider sharing of property ownership. Larger farms tend to frustrate these things although it is argued, on their behalf, that they provide an employment outlet with a built-in career structure for the more able.

It is a matter for considerable professional misgiving that, after decades of data collection on production patterns and income generation in farming, society is so badly equipped to come to satisfactory conclusions on such

fundamental questions. They must be made central to planning how University Departments of Agricultural Economics design and operate farm business studies in the future. They demand an analytical framework that is much wider and interdisciplinary than hitherto, and call for a new vision of farms and farmers and the society in which they operate. Mounting such studies will call for more flexible administrative and funding arrangements than obtain at present.

There are signs that society is ready, perhaps more ready, for such enquiries to be launched than the professionals are to launch them. It would be sad for society, and for us professionally also, if that were to prove to be the case.

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