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THE E.E.C. AGRICULTURAL REFORM PLAN AND ITS RELEVANCE TO BRITISH AGRICULTURE

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1. The Agricultural Problem

In the E.E.C., as in Britain, agricultural policy is designed to a large extent with the object of protecting farmers' incomes. These incomes are always threatened because of the low price elasticity and income elasticity of demand for food and the ever-increasing agricultural output and production costs. For many agricultural products price elasticity is less than unity, so that - without government intervention - a rise in output would lead to a fall in revenue. Many agricultural products have also a lower-than-unity income elasticity, so that any rise in consumers' income is reflected in a less-than-proportional increase in demand for these products.

Until now the main method used in the E.E.C. for the support of agricultural incomes has been the artificial raising of agricultural prices through import levies, export subsidies and intervention buying. The last two measures have proved extremely costly because the high prices have stimulated production of certain commodities - in particular milk, wheat and sugar - far beyond the quantity demanded by home consumers at ruling prices. Despite the high expenditure on price support, and a smaller, but nevertheless sizeable, amount spent on improvements of production and marketing conditions by the Community's Agricultural Fund, the gap between agricultural and non-agricultural incomes is not being reduced. This situation has led to the formulation of new solutions of the agricultural problem, such as the Mansholt plan for the Community as a whole and the Vedel plan for France. Both plans recommend a realignment of prices for the purpose of adjusting supply of the different products more closely to market demand. However, considerable price reductions would be necessary for the elimination of surpluses of certain products. This might lead to an unacceptably large fall in incomes of many farmers. Thus, the proposed price reductions would not be too drastic but would have to be accompanied by other measures. One group of measures would aim at the limitation of production through withdrawal of land from agriculture, while another group would attempt to speed up the movement of people out of farming.

If Britain joined the E.E.C. the implementation of national agricultural plans - such as the Vedel plan for France - would affect her indirectly. For example, Vedel proposes the withdrawal of at least 10 million hectares from French agriculture (9).* If this proposal is carried out it will obviously make French agricultural output lower than it would have been otherwise. This will reduce the downward pressure on market prices of agricultural products throughout the Community. Thus, there will be less need for intervention buying and export subsidies, so that the cost of support will diminish for Britain as for all the member countries.

The implementation of a Community programme - such as the Mansholt plan - would have similar consequences but in addition it would affect British agriculture directly because the measures would apply in this country as in all the member countries. Thus British farmers would be entitled to the proposed grants and, consequently, Britain would be likely to share with the other member countries the experience of a speeded-up removal of manpower and land from agriculture. This decrease

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* Numbers in brackets refer to the list of references at the end of this bulletin.

in the size of British agriculture may be regarded as a mixed blessing: while reducing the need for agricultural support it may aggravate this country's balance-of-payments problems through an increase in food imports. Indeed, much thought has been given in Britain to devising means of <u>increasing</u> farm output with the object of saving imports.[1] This possible conflict of objectives between Britain and the E.E.C. arises, of course, from the fact that the E.E.C. as a whole has exportable surpluses of several agricultural products,[2] whereas Britain has been importing large quantities of food and animal feed in order to satisfy home demand.

2. The Magnitude of the Problem

This contrast between agricultural self-sufficiency and need for agricultural imports is a difference in kind. Other differences between the problems facing British and E.E.C. agricultural policies are differences in degree.

Thus, although in all the countries concerned income per head is lower in agriculture than in other occupations, the income gap is very much greater in the three largest E.E.C. countries than in Britain, as shown in Table 1.

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[1] See, for example reference (12).

[2] See, for example, reference (2) p.12, Table 5.

Table 1

Ratios of Gross Domestic Product per head, agriculture/other occupations.[1]

Belgium	0.795
France	0.389
West Germany	0.346
Italy	0.365
Netherlands	0.903
U.K.	0.819

Although figures are not available for a comparison of income per farm in Britain and the E.E.C., some idea of the divergence between these incomes is given by the following estimates of revenue per farm: France - £1300, U.K. - £5169.[2] The income difference is probably not so great as the revenue figures suggest, for it is likely that costs are higher in relation to revenue in Britain than in France. Nevertheless it can be confidently asserted that the average income per farm is appreciably lower in the E.E.C. than in Britain because of the considerable differences in the average size of farm. This has been estimated in terms of area as 27 acres in the E.E.C. as a whole (4), 49 acres in France (9) and 112 acres in the United Kingdom (24).[3]

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1 Calculated from ref. (4), part B, annex 2, and part D, p.6, ref. (15) Table 5, and ref. (3), Table 11. The basic data refer variously to the years 1965, 1966 and 1967.

2 Calculated from ref. (11), (1) and (24). The French figure refers to an unspecified recent year. For the U.K. total receipts in 1969/70 have been divided by the number of holdings in 1966/67.

3 In terms of crops and grass (i.e., excluding rough grazings) the average U.K. size of farm is 71 acres.

A more meaningful measure of business size than acreage is the farm's labour requirement. Here again the evidence points at a more frequent occurrence of small farm businesses in the E.E.C. than in Britain. Thus, it is estimated that "75% of all the Community's farms could be run on only three-quarters of a human labour unit each" (4), whereas in the U.K. only 50% of all agricultural holdings have standard labour requirements of less than 275 standard man-days, i.e., one labour unit (23). Nevertheless, with fifty percent of farms giving insufficient employment even to one person, the United Kingdom is obviously faced with a "small farm problem", though to a smaller extent than the E.E.C. This situation is reflected in the fact that the average agricultural income in the U.K. is lower than the average for other occupations (Table 1), though here again the situation is not so serious as in France, West Germany or Italy. Both these comparisons - between the proportion of small farms and the income gap - point to the conclusion that some improvement is needed in the economic position of agriculture both in Britain and in the E.E.C., though the need seems greater in the E.E.C.

3. Price Policy

The E.E.C. has attempted to maintain or improve farm incomes by fixing support prices at a relatively high level. This policy has not been successful. Farm incomes do not seem to have improved on the whole because of the rising cost of production, while the accumulating surpluses of agricultural products have raised the support cost to an extent which, in the E.E.C. Commission's view, threatens to become intolerable (4, part A, p.7). Two obvious remedies would be to reduce the support prices of the surplus products or to limit support buying to cases of prolonged periods of low market prices. One or both of these remedies were probably envisaged by some members of the E.E.C. Commission who are reported to have preferred a weakening of the system of protection to the costly measures of agricultural reform finally recommended by the Commission.[1] Price reductions for surplus products have been recommended in the Vedel report (9) for France and in the report of a group of the British Federal Trust (19). However, while resulting in a reduction of the support cost, price cuts would be likely to lower the income of many farmers who would be unable to compensate for them by a sufficiently large increase in the output of those products whose prices have not been reduced. Aware of this objection, both the Vedel and the Federal Trust reports recommend compensatory payments as a corollary of price reductions. The Community Commission itself, in its memorandum which recommends reductions in support prices for cereals, sugar and milk, estimates that these reductions would result in farm income falling by £179 million, thus increasing the need for structural reform of agriculture (5).

4. The E.E.C. Commission's Reform Plan

The E.E.C. Commission published a plan for the reform of agriculture - the so-called Mansholt plan - in December 1968.[2] This plan is the basis of the Commission's proposals for five Council

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[1] See "Le Monde", 20.12.1968.

[2] Reference (4), part A.

directives and one regulation published in April 1970[1] but the proposals contain some additional schemes. The 1970 proposals concern farm modernisation (part I), withdrawal of manpower (part II) and of land (part IV) from agriculture, aid to producers' groups and unions (part VI), special measures for livestock farmers (part V) and socio-economic information and professional qualification (part III).

Aid for modernisation: Farmers will be able to withstand more successfully the likely further increases in the prices of factors of production and reductions in support prices if they improve the efficiency of their farming by taking advantage of new techniques and of economies of scale. In order to encourage such adaptation, aid would be given either to individual farmers or to groups of farmers intending to form a partnership. The farmers selected for aid must have sufficient professional skill, keep accounts and prepare a development plan. The development plan - which may include an increase in area through renting or purchase - must provide for at least two man-years of labour[2] and for a "reduced" gross output (i.e., total output less seed and feeding stuffs used) of at least £4167 to £5208[3] per man-year at the completion of the plan.

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[1] Ref. (6) and (8). If passed, the directives would be binding on the Member States "as to the result to be achieved, ... while leaving to national authorities the choice of form or means." (E.E.C. Treaty, art. 189).

[2] It is interesting to note that the original plan (4) suggested minimum enterprise sizes based on acreage of crops or numbers of livestock. (See Appendix 1.) The present criterion allows for varying enterprise combinations. A farm with several small enterprises would qualify under this criterion.

[3] The exact figure is to be fixed according to regional conditions and the nature of production.

The principal aids would consist of a take-off grant varying according to the number of farmers participating in the plan, up to a maximum of £2083, and of an interest-rate rebate of up to 6% on moneys borrowed for investment, excluding land and livestock. There would also be an annual grant of up to £42 for three years as an aid to the keeping of accounts. Groups formed for mutual aid or for more rational utilisation of equipment would qualify for a take-off grant up to the maximum of £2083.

Withdrawal of manpower: The tendency of agricultural incomes to lag behind incomes in other occupations can be counteracted by a reduction in the agricultural population if such a reduction is accompanied by a less-than-proportional decrease in total agricultural income. When the withdrawal of manpower occurs simultaneously with modernisation of farms we may, in fact, expect a marked increase in income per head in agriculture. This is because - according to the hypothesis of diminishing returns to labour - average output per man should increase (up to a point) as manpower decreases; and an appropriate modernisation programme should be capable of ensuring that the inputs of land and capital are adapted to the reduced quantity of labour in such a way as to result in an appreciable increase in income per head.

A series of measures is proposed to encourage a speeding-up of the decrease in agricultural manpower. Farmers and farm workers (including family labour) withdrawing from agricultural activities and aged 55 or over would receive an annual payment of at least £417 if married or supporting at least one person; those without dependents would receive a smaller amount to be fixed by each Member State. Old age pension would be deducted from the grant. Withdrawing farmers aged under 55 would receive a grant equal to at least eight times the rental value of the farm. The land freed by the farmers would have to be withdrawn permanently from agriculture, or sold or leased to farmers participating in the modernisation programme.

In the normal course of events the land vacated by farmers taking advantage of these grants might be sold outright to neighbouring farmers or for non-agricultural uses such as afforestation or building. The Commission regards a large increase in land sales as undesirable, mainly because finding the money for land purchase would diminish the purchasing farmers' ability to make other investments. The Commission also seems to imply that a large increase in sales of land, both for agricultural and non-agricultural purposes, would have undesirable repercussions on the land market (6, part II, p.3), although it is difficult to see why an increase in supply of land, leading presumably to a fall in price, should be considered undesirable. In any case, the Commission wishes to encourage long-term leasing of the vacated land (for at least eighteen years) rather than its selling. It recognises that owner-occupiers withdrawing from agriculture need capital with which to begin their new life. Instead of obtaining this capital by selling their land, they would be able to borrow it at favourable terms, for the Commission proposes that they should be granted a lump sum of up to 6% of 9 years' rent when they contract such a loan.

Where the departing farmer is a tenant, his landlord would also be encouraged to lease the land rather than sell it. In this case the incentive would consist of an annual grant, payable throughout the duration of the lease, of a sum equal to 15-20% of the rent.

<u>Withdrawal of land</u>: It is hoped that surpluses of farm products will be prevented or reduced by measures which encourage a reduction in the amount of land used for farming. In recommending these measures the Commission points out other benefits which would flow from devoting farm land to non-agricultural uses. Afforestation would result in a reduced need for timber imports and a decrease in air pollution and soil erosion; it would also provide employment for those people who withdraw from agriculture but do not wish to change their place of residence. Land diverted from agriculture to recreational and public health uses would help in solving the problems which arise when town population increases and the number of working hours is reduced.

The proposed grants are motivated by the knowledge that income from afforestation does not accrue during the first few years, i.e., before any of the timber is ready for cutting, and aid is designed with the aim of supplying the owner's financial requirements during this period. Some of the grants would, however, be available also to owners who lease their land for public health and recreational uses, so as to encourage such decisions.

The details of the proposed aid are as follows:

1. Afforestation: Land owners would receive a grant of 80-90% of the first three years' cost, and would have at least 9 years' land tax refunded.

2. Afforestation and the leasing of farm land for public health or recreation uses: Owner-occupiers who withdraw from agriculture would receive, during at least 9 years, annual aid equal to

the rent which they would have received if they had leased their land for farming. Landowners whose tenants have released land would receive aid amounting to 30-50% of this hypothetical rent, also during at least 9 years; in addition, they would obtain a refund of at least 9 years' land tax.

It should be borne in mind that these paymente are <u>additional</u> to the rent which these landowners will be receiving when they have leased their land for non-agricultural uses.

<u>Producers' groups and unions of producers' groups</u>: These proposals are aimed at encouraging co-operation among farmers. It is well known that common ownership of machines by a group of small farmers can bring to these farmers some of the economic advantages of large-scale production. Co-operation in marketing can give a group of farmers bargaining power which none of them would have in isolation.

The Commission proposes that, during the first three years after recognition, groups should receive grants equal to not more than the following percentages of the value of their sales: 3% in the first year, 2% in the second year and 1% in the third year. For groups producing cattle, sheep and goats the percentages would be 5%, 4% and 3%.

Both groups and unions would receive aids towards loans contracted during the first 5 years after recognition. These aids would consist of (1) guarantees of the loans and (2) rebates of interest up to 6% for a maximum of 15 years. In addition, during the first 5 years after recognition each union may receive grants up to a total of £20,830.

<u>Livestock</u>: The purpose of these proposals is to encourage import substitution by an increase in the production of beef and sheep; to discourage milk production which is at present running at a large

surplus; and to prevent excessive expansion of pig and poultry farming which would lead to a surplus of pig meat, eggs and poultry meat.

For three years beef and sheep producers would receive grants as follows: £5. 1s. per acre in the first year (maximum £1250), £3. 7s. per acre in the second year (maximum £833) and £1.14s. per acre in the third year (maximum £417). Milk producers who have all their cows slaughtered before the end of 1973 would be paid £83 per cow as a compensation for abandoning milk production. (This is in addition to the purchase price of the cow.)[1]

This proposed directive also introduces restrictions to the farm modernisation grants which are described earlier in this paper. If a modernisation plan includes an increase in the dairy herd, aid would be allowed only if at least one-third of the farm area is under grass. A modernisation plan which includes investment in pig, egg or poultry enterprises would qualify for a grant only if at least half of the feed can be produced on the farm.

Socio-economic information and professional qualification: The Commission proposes the establishment in each member state of services of socio-economic information for the purpose of advising farmers on desirable changes in their farming practice and structure, and advising both farmers and farm workers on problems of transfer to other occupations and retirement. The E.E.C. Agricultural Fund would refund part of the expenses of the establishment of these services up to £1667 per adviser. Centres would be set up for training the advisers, with the contribution of the Agricultural Fund limited to

[1] This proposal has been modified since the publication of the April 1970 document. (See Community News, September 15, 1970.)

£1667 per student.

Centres would also be established for general, technical and economic education and training of farmers and farm workers, with a contribution from the E.E.C. Agricultural Fund of up to £833 per student.

Duration: The directives would be in operation for 10 years, with the exception of the directive concerning livestock farming which would expire at the end of 1975.

Cost: The E.E.C. Agricultural Fund would bear 30% of the aid to producer groups and unions, and 50% of the cost of the other measures. Estimates are given for the first five years. They add up to an annual cost of £475 million, of which £231 million would be contributed by the Agricultural Fund and the rest by the national treasuries.

Effects: No estimate has been attempted of the effect of the reform programme on farmers' incomes. Difficulties facing an attempt at such an estimate are probably insuperable, for, while the reforms should result in an increase in efficiency, there do not seem to be any means of assessing the magnitude of the increase. It is equally difficult to estimate the effect of the reforms on total agricultural output, which will be influenced in two opposite directions (1) by the reduction in the farming population and area and (2) by the increased yields per unit of land and livestock made possible by the modernisation and advice programmes. The Commission has, however, estimated the probable effect on the size of the agricultural population and on the agricultural area.

The original Mansholt plan postulated a decrease in agricultural population from 10 million in 1970 to 5 million in 1980.[1] The 1970

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[1] (4), part A, p.53.

proposals give the estimated decrease in the number of farmers for the years 1971-1975 as 1.4 million.[1]

The original plan aimed at least at a 5 million hectares reduction by the year 1980 in the agricultural area[2] of 70 million hectares.[3] The 1970 proposals estimate the reduction during the years 1971-1975 at 1.96 million hectares.[4]

5. Reactions to the Reform Plan

The chances of adoption of an agricultural reform plan in the E.E.C. depend to some extent on the plan's reception among farmers. With fourteen per cent of its active population engaged in farming, the E.E.C. may be unwilling to act against the wishes of its agriculturists. It is difficult to gauge the agricultural opinion on the Commission's plan for structural reform because the original Mansholt plan - unlike the 1970 proposals - dealt also with price policy, warning against increases in prices of "surplus" products. Seeing the almost continuous increase in their input prices, many farmers were naturally hostile to a "freeze" on the prices of any of their products, and often seemed to extend this hostility irrationally to the reform proposals. They sometimes tended to forget the voluntary character of these proposals, complaining of the Commission's desire to force farmers off the land. One must admit, however, that, insofar as the plan limits the modernisation

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1 (6), Part II, Annex p.5.

2 (4), part A, p.65.

3 (7).

4 Calculated from (6), part IV, Annex p.1: 20% allocated for non-agricultural uses out of the total of 9.8 million hectares allocated for the reform programme.

grants to the farms above a certain minimum size, the smaller farmers are justified in feeling left behind unless they surrender some of their independence by joining a producers' group. In February 1969 the congress of the main farming organisation in France, the F.N.S.E.A., rejected almost all the proposals of the Mansholt plan. Nevertheless, in an article in "Le Monde" of September 2, 1969, that organisation's vice-president, M.Deleau, who is president of the Committee of the Professional Agricultural Organisations of the E.E.C. (COPA), was, on the whole, favourable to the plan.

Politicians seemed to reflect farmers' fears with regard to the plan. In its issue of 2-3 March 1969, "Le Monde" reported that all the political parties in West Germany condemned the plan. In June 1969, the then Minister of Agriculture of that country stated that decisions on agricultural reform should be made by the national governments, as their knowledge and understanding of regional conditions were better than the Commission's. During the French presidential election campaign of 1969 M. Pompidou used strong language to oppose the Mansholt plan ("Le Monde", 15-16 June 1969). In the "Guardian" of January 16, 1970, Mark Arnold-Foster reported that the Mansholt plan would probably not be accepted by the six governments because of its excessive cost.

Neither were experts unanimous in praising the plan. For example, the Vedel report expressed the view that the Mansholt model under-estimated the risk of surpluses, and that these would not be reduced by modernisation and concentration.[1] Some writers claimed that modernisation might increase the surpluses through higher yields, despite withdrawal of land and labour.[2]

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[1] (9), p.39-40.

[2] E.g. (10).

Nevertheless, the final decisions on the European Communities' agricultural policy must be taken by the E.E.C. Council which consists of representatives of the six governments; and that body has shown some signs of being influenced by the Commission's reforming zeal. Thus, some medium-term measures for dealing with the milk surplus, proposed in part C of the original document (4), have been largely adopted by the Council and put into operation. Also, at its session in November 1969, the Council appeared to approve in principle the use of Community funds for structural reform (14). Thus, it seems reasonable to assume that something on the lines of the Commission's proposals will eventually be adopted. In the next section we consider the relevance of such a policy to British agriculture.

6. Relevance to British Agriculture

(a) General: If Britain joins the Common Market any directives and regulations setting up an agricultural reform programme will eventually become binding in this country. This does not necessarily mean the end of any British schemes which may be in existence at the time of joining, so long as such schemes do not give British farmers an unfair advantage over those of other member states or otherwise infringe the Treaty of Rome. If, however, as seems likely, the acceptance of the Common Agricultural Policy, including the reform measures, imposes a net cost on the Exchequer, Britain will be likely to compensate for this by abandoning all or some of the existing schemes of support.

The application of the E.E.C. agricultural reform to Britain would result in a considerable speeding-up of the rate of decrease in agricultural area and population if British farmers and farm workers availed themselves of the grants offered at the annual rate forecast in the E.E.C. plans. For this speeding-up to be achieved the willingness of British farmers to leave the land would have to be much greater than it has been in the past. Thus, according to a "Guardian" report on 2.12.1970, only 1,700 farmers left agriculture over the period of three years under the Farm Structure (Payment to Outgoers) Scheme which had come into operation in 1967. However, the E.E.C. scheme, unlike the British one, is not limited to "non-viable" farms; also the maximum annuity which farmers aged 55 or over can obtain under the British scheme is only £275, compared with £417 under the E.E.C. proposals; and many younger farmers might obtain higher lump-sum grants under the E.E.C. than under the British scheme.[1] On the other hand, even the increased grants might not attract those farmers who would benefit from an increase in several producer prices under the E.E.C. system.

In general, farm incomes in Britain are higher than in the E.E.C., mainly because of the larger farm size. Thus it seems unlikely that, if Britain joins the E.E.C., the rate of decrease in agricultural population and area will be as great in Britain as in the E.E.C. Nevertheless, it seems interesting to compare the actual British rates of decrease with both the planned and the actual rates in the E.E.C.

In the following comparisons British figures are set against E.E.C. <u>averages</u>. We should note that the data for individual member countries may differ considerably from the Community average figures.

The annual rate of decrease in U.K. agricultural <u>area</u> between 1959 and 1965 was <u>0.25%</u> (<u>0.10%</u> for the crops and grass area, i.e., excluding rough grazings).[2] This can be compared with the planned E.E.C. rates

[1] See below, section 6 (b) (ii).

[2] Calculated from (24).

of 0.8% implied in the Mansholt plan for the period 1970-1980,[1] or 0.6% implied in the 1970 proposals for the years 1971-1975.[2] Incidentally, even the past rate of decrease in the E.E.C. was higher than in Britain, amounting to 0.3% in 1959-1965.[3]

As regards the rate of decrease in agricultural population, this cannot be derived from the 1970 proposals but the original Mansholt plan implies an annual fall of 7.2% between 1970 and 1980.[4] This may be compared with the 1962-1966 rates of approximately 3.5% in the U.K.[5] and of 4.3% in the E.E.C.[6]

A comparison may also be made between the planned decrease in the number of farmers and the actual decrease in the recent past. For the purpose of this comparison it is assumed that the annual rate of decrease in the E.E.C. from 1966 to 1970 was equal to the 1962-1966 rate of 2.9%.[6] We thus obtain the annual rate of 10.8% implied in the E.E.C. 1970 proposals for the years 1971-1975,[7] whereas in the U.K. the number of farmers decreased only at an annual rate of 1.7% between 1962 and 1966.[8]

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[1] Calculated from (7).

[2] Calculated from (6), part IV, Annex p.1.

[3] Calculated from (15).

[4] Calculated from (4), part A, p.53.

[5] The U.K. rate can only be estimated, as annual figures for total agricultural population are not available. The estimate of 3.5% is based on the number of holdings plus all workers in (24). The figures for holdings plus whole-time regular workers give a rate of 3.7%

[6] Calculated from (4), part B, Annex 11.

[7] Calculated from (6), part II, Annex p.5.

[8] Calculated from (24) (number of holdings).

The above estimates are brought together in Table 2. The general conclusion which emerges is that all three movements out of agriculture, i.e., the decreases in area, population and number of farmers will have to be substantially speeded up in the present E.E.C. member countries if the Commission's targets are to be reached. British figures are included in the Table for comparison only. Their inclusion does not imply the desirability of the British rates of decrease reaching the average levels planned for the present Community.

How many farmers are there in the United Kingdom who would be likely to withdraw from farming if offered incentives proposed by the E.E.C. Commission? If farmers were motivated exclusively by financial considerations they would withdraw from farming if by doing so they achieved an increase in income. It is well known that, in fact, farmers often prefer to continue in agriculture even when they could

Table 2

Annual rates of decrease[1]

		Actual recent	Planned 1971-1975[2]	Planned 1970-1980[3]
Agricultural area				
	E.E.C.	0.3%	0.6%	0.8%
	U.K.	0.25%	-	-
Agricultural population				
	E.E.C.	4.3%	-	7.2%
	U.K.	3.5%	-	-
Number of farmers				
	E.E.C.	2.9%	10.8%	-
	U.K.	1.7%	-	-

[1] For sources and methods, see preceding text and footnotes.

[2] The 1970 proposals by the E.E.C. Commission.

[3] The original Mansholt plan.

increase their income by transferring to other occupations. Thus, non-monetary advantages of agriculture, such as the desirability of living in the country and of being one's own "boss", must play a part in farmers' decisions. These advantages cannot, however, be quantified, and we are forced to base our estimates on financial data.

The prospective income of farmers who leave agriculture depends on the kind of employment they will obtain, on the income derived from investing the money received for land, livestock and equipment sold, and on the size of the withdrawal grant. Apart from non-monetary considerations, the rational farmer will decide to leave agriculture if the total of his prospective income outside agriculture exceeds his present and expected future farm income (presumably based on the average of his farm income over a number of years in the recent past). However, of the constituents of the prospective income outside agriculture only the withdrawal grant is common in size for large groups of farmers, whereas the other constituents - i.e., income from non-farm employment and from investment - are likely to vary greatly as between individuals. This makes it virtually impossible to foresee the total number of British farmers likely to leave agriculture under the E.E.C. reform plan. Nevertheless, farmers whose withdrawal grant by itself exceeds their farm income are most likely to leave and we estimate their number in section 6 (b).

There are two snags which make our estimates rather "rough and ready". Firstly, the income tax position will affect the farmer's decision, but liability to tax varies with personal circumstances, so that we have decided not to make any deduction from pre-tax income in our estimates. There is no mention of tax in the Commission's proposals, and the implied assumption in our estimates is that the grant would be taxed at the same rate as the farm income.

The second snag arises from the impossibility of assessing, on the basis of published results, the number of farmers whose income has been below a certain figure <u>on an average over a number of years</u>. We have had to resort to the assumption that one year's income represents this average. This assumption is open to criticism but no other practicable method seems likely to lead to more accurate estimates.

(b) <u>Specific measures</u>: For this purpose we have to divide farmers into age groups, because - as already explained - the form of the proposed withdrawal grant varies according to whether the farmer is over or under 55 years of age, and also because the State retirement pension is deducted from the grant.

(i) <u>Farmers aged 55 or over</u>

Let us deal first with farmers who would receive an <u>annual grant</u> after withdrawal from agriculture, i.e., those aged 55 or over. According to the United Kingdom social security regulations, those who have been paying their weekly contributions are entitled to a pension at 65 (60 for women) if retired, and at 70 (65 for women) whether retired or still working. Furthermore, both the U.K. pension and the proposed E.E.C. grant varies according to whether the recipient is married or single.[1] Thus, separate estimates have to be made for the different categories of farmers classified according to age, sex and marital

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[1] Strictly speaking, the E.E.C. proposals specify the higher amount of grant not only for married recipients but also for others who maintain at least one person.

status.[1] The estimates have been made for the year 1975, on the assumption that the transitional period will be over by the end of that year and Britain will, therefore, be subject to the Community's reform measures.

Those farmers not entitled to the State retirement pension would receive the full amount of the withdrawal grant on leaving agriculture. The grant would amount to £417 per year for a married man. For single farmers we have assumed the figure used in the E.E.C. estimates,[2] namely, £278 per year. We have assumed that farmers whose annual income is less than the grant would be most likely to withdraw from agriculture. On the basis of the U.K. Farm Management Survey for 1968 - (21), p.79 - we have estimated that 17% of all farmers earn annual incomes of £400 or less.[3] Applying this proportion to the number of married farmers between the age of 55 and the minimum age of retirement gives us the estimate of approximately 9,000 farmers who might obtain the grant, amounting to a total of over £3,864,000. The same method used for unmarried farmers earning £275 or less per year gives an estimate of over 2,200 farmers, and a total grant of £626,000.

Men aged 65-69 and women aged 60-64 would, on withdrawal from farming, have their farm income replaced by the State retirement pension (if they had been paying contributions), plus the withdrawal grant from which the amount of pension has been deducted. The State pension for

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1 The numbers in each category have been estimated on the basis of ref. (16, 17, 18) and on the assumption that the number of farmers will continue to decrease by 1.7% per year, as it did between 1962 and 1966.

2 (6), part II, Annex p.1.

3 It has been found impracticable to adjust this and some other estimates to the E.E.C. prices.

a married man is £421, and thus larger than the withdrawal grant, so that the introduction of the withdrawal grants would not tempt any married farmer to abandon agriculture. For unmarried people the pension is £260. Thus, a retiring farmer would get the pension plus £18 which is the difference between the withdrawal grant and the pension. It seems obvious that no one would give up farming in exchange for such a small additional reward if he had not regarded the pension as a sufficient inducement.

Men aged 70 and over, and women aged 65 and over, are already in receipt of pension (if they paid contributions) even though they continue farming. Under the E.E.C. proposals the married farmers would not receive a grant, as its amount is less than the pension. The unmarried farmers who withdraw from agriculture would continue receiving their pension plus £18 which is the difference between the grant and the pension. This sum is unlikely to encourage any one to give up farming.

(ii) <u>Farmers aged under 55</u>

As already stated, farmers under 55 years old would, on withdrawing from agriculture, receive a lump sum equal to eight times the rental value of the farm. Would many British farmers be likely to avail themselves of this grant? Since the grant would vary from farm to farm, this question is very difficult to answer. However, some insight into the likely position can be gained from the estimates given in Table 3. The figures in this Table refer to small farmers, as it is they who seem most likely to wish to leave agriculture owing to insufficient income.

For the purpose of the Table it is assumed that the grant money would be invested at eight per cent. It is shown that - for all but

Table 3

Yield from lump sum grant and farm income (small farmers)
(For details of method see Appendix 2)

1	2	3	4	5	6
Type of Farm	Acreage	Estimated Grant (lump sum)	Estimated Yield from Investment of Grant Money at 8%	Estimated Net Farm Income[1] at E.E.C. prices	Difference (col.5 - col.4) i.e., minimum non-agricultural income required
	Acres	£	£	£	£
Specialist Dairy	43	1720	138	917	779
Mainly Dairy	38	1456	116	1510	1394
Livestock, mostly Sheep	282	2152	172	760	588
Livestock, Cattle & Sheep	85	2360	189	1166	977
Cropping, mostly Cereals	130	4928	394	2711	2317
General Cropping	38	1968	157	1417	1260
Mixed	117	2920	234	1252	1018
Pigs & Poultry	40	1656	132	-757	not applicable
Very small farms, Pigs & Poultry	17	872	70	-86	not applicable

two of the types of farms analysed - the annual income which such an investment would bring (col.4) - is considerably lower than the average net farm income adjusted for E.E.C. prices (col.5). The difference between the two amounts (col.6) represents the income which the farmer would have to obtain outside agriculture, in addition to the grant, if the withdrawal were not to leave him financially worse off; a larger

1) Including the reward for farmer's and wife's labour.

income than that shown in col.6 would make him better off financially outside than inside agriculture, and thus would encourage his departure. It will depend on each farmer's financial assets, on business opportunities and on the availability of non-farm employment whether such an income is likely to be obtained. Thus it seems idle to speculate on the probable number of farmers who would take up this particular grant. What can be said, on the basis of the estimates in column 3 of the Table, is that some farmers would qualify for higher grants than those available under the British 1967 scheme, which range from £1,000 for a 10-acre farm to £2,000 for a 110-acre farm. Also, as mentioned earlier, under the E.E.C. scheme - unlike under the present British scheme - even farmers with "viable" holdings would be eligible for withdrawal grants. Thus the introduction of the E.E.C. grants is likely to increase the present slow rate of uptake of withdrawal grants in Britain.[1]

For two types of farm - small and very small pig and poultry holdings - the Table shows a negative net farm income. If these farmers did not expect better fortunes in the future, they would be acting rationally in choosing the grant rather than a financial loss or an annual farm income lower than the yield from investing the grant money. The large increase in feed costs which would result from Britain's entry into the E.E.C. may, in fact, put some farmers in this position - but this depends to a large extent on the conditions in the egg and poultry market at the time of entry. (Pig producers are less vulnerable because of the system of intervention buying for pigs in the E.E.C.)

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1 See above, section 6 (a).

(iii) Modernisation

Our last set of estimates concerns the proposed aids to modernisation. As mentioned in section 4 above, these aids would be offered to farmers whose development plans provide for at least two man-years of labour. At present there are in the United Kingdom approximately 123,400 holdings with standard labour requirements of two man-years (550 man-days) or over. They constitute approximately 30 per cent of all agricultural holdings and 60 per cent of "full-time" holdings (i.e., holdings with standard labour requirements of one man-year or over).[1] Many of these farmers might wish to apply for modernisation aids. In addition, many of the occupiers of the remaining 273,900 holdings might consider amalgamation so as to enlarge their size of business to the two man-years minimum. Some of those whose holdings are amalgamated with others might wish to leave agriculture, thus qualifying for a withdrawal grant or annuity, while others would remain as partners.

The attainment of the minimum size is, however, only one of the requirements for eligibility. As mentioned in section 4, the "reduced" gross output after modernisation must not be lower than a figure fixed between £4167 and £5208 per man-year. How do these output figures compare with those actually achieved in Britain? The E.E.C. "reduced" gross output corresponds roughly to the British concept of total net agricultural output. Table 4 shows the latter (adjusted for E.E.C. prices of products and feed - see Appendix 2) for all the types of farming (with the exception of horticultural, "very large" and "very

1 These figures have been calculated on the basis of (23).

small" farms) covered by the Farm Management Survey in England and Wales (21). The figures are given for two business size groups, ranging from one to almost four-and-a-half man-years per farm.

Table 4 shows that, within the size range chosen, only one type of farm ("Cropping, mostly Cereals") attained net output per man-year greater than the minimum target figure under the E.E.C. modernisation

Table 4

Estimated total net agricultural output per man-year at E.E.C. prices[1]

Type of Farm	Total net agricultural output per man-year	
	Farms with 275-599 s.m.d.[2]	Farms with 600-1199 s.m.d.[2]
	£	£
Specialist Dairy	1907	2195
Mainly Dairy	2110	2251
Livestock, mostly Sheep	1374	1394
Livestock, Cattle and Sheep	2217	2498
Cropping, mostly Cereals	4277	4862
General Cropping	3125	3215
Mixed	2299	2605
Pigs and Poultry	760	587

proposals. All other farm types show average net output per man-year considerably lower than the eligibility limit. It seems, therefore, that in order to qualify for aid to modernisation, most British farmers would have to plan a radical change in their production methods and/or

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1 Year 1967 or 1968, whichever shows the higher figure. The estimates are based on the average results per farm and the average standard man-days per farm.

2 s.m.d. = standard man-days.

their product mix so as to achieve a large increase in net output per man.[1] It is not, therefore, possible to make a reliable estimate of the number of British farmers who might qualify for the E.E.C. modernisation aids, or of the total amount of aid they would be likely to receive.

7. <u>Discussion</u>

The E.E.C. Commission's proposals aim at an increase in agricultural incomes through a reduction of the agricultural population and a slowing-down of the increase in agricultural output. If Britain joins the Common Market and, consequently, is included in the reform programme, the second aim - the slowing down of the increase in output - might be regarded as contrary to the British interest as it might make impossible an improvement in the balance of payments through greater self-sufficiency. However, the tentative estimates included in the present paper add up to a total of only about 11,000 U.K. farmers most likely to leave agriculture under the E.E.C. reform programme. This represents only 3.5% of the estimated total number of farmers in 1975, compared with the 40% of the present E.E.C. farmers whom the E.E.C. Commission expects to leave agriculture in the first five years of operation of its programme. Our U.K. estimate may well be on the low side, as explained in section 6 (a). Nevertheless, if the probable increase in productivity is taken into account, it seems likely that over the years the adoption of the E.E.C. reform proposals would not prevent the U.K. agricultural output

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1 Available data suggest that few E.E.C. farms would qualify for modernisation aid without planning considerable changes in their structure in order to attain the target output per man. (See Appendix 3.) For aid to be more widely available the qualifying criteria would have to be made less exacting. The French Minister of Agriculture had perhaps this point in mind when he criticised some of the Commission's proposals on agricultural reform as being "based on a rigid model." (See "Le Monde", October 11-12, 1970, p.19.)

from rising, though the present E.E.C. members' output might well decline because of the relatively much greater loss of manpower.

The Commission also put forward proposals on producers' groups, farm modernisation and training and advice. If adopted, these programmes should help to increase agricultural incomes in all the E.E.C. countries, including Britain if she becomes a member.

One may note that modernisation achieved through financial aid and advice is likely to result in an increase in output from the farms involved. However, this increase in output is not likely to worsen the Community's surplus problem if the planned reduction of agricultural population - including the annual decrease of 10.8% in the number of farmers, mentioned in section 6 (a) above - is achieved. Nevertheless, in order to allow for the possibility of a future reduction in the ratio of product prices to input prices, it would seem desirable to encourage cost-reducing measures - such as machinery syndicates and other labour-saving methods, the use of cheaper feed, etc. - side by side with output-increasing methods, such as the use of improved crop varieties and live-stock breeds and the intensive use of fertilisers. If out-migration from agriculture were to lag behind the planned level and labour productivity were to continue rising, total agricultural output might continue to increase. The low price elasticity and income elasticity of demand for agricultural products would then lead to a falling farm revenue unless price support expenditure were increased. An increase in support expenditure would not be regarded as desirable by the member governments which are already worried by the present level of agricultural support cost. In such circumstances some net saving in the total agricultural budget might be effected if the modernisation and advice programmes placed very strong emphasis on cost-reducing methods. The application of such methods would lead to a decrease in total production costs. It might thus become practicable to reduce support expenditure through a reduction of intervention prices and export refunds for - thanks to the lower production costs - such action would not necessarily lead to a fall in net farm income and might be consistent with an increase in this income. The ensuing reduction in the support expenditure might well be larger than the cost of the relevant modernisation aids and advisory work.

The land withdrawal plan should help some farmers and landowners on marginal land, as well as putting an additional brake on farm output. The proposed aids to livestock producers are likely to improve the product mix in the E.E.C., leading to an increase in farm income; since these measures would expire in 1975, they are not likely to be applicable to the United Kingdom.

As already mentioned, the average annual cost of the proposed reform for the first five years is estimated at £475 million for the present member countries. The total structural expenditure in the E.E.C. for 1969 has been estimated at £917 million.[1] Much of the present expenditure may be discontinued if and when the reforms are adopted so that there need not necessarily be an increase in the total. A large increase is, however, suggested in that portion of the structural expenditure which is contributed by the E.E.C. Agricultural Fund. In 1968, for example, the Fund contributed £51 million (13), whereas the reform proposals imply an average annual contribution of £231 million in the first five years. This increase in the Community financing of

1 (4), part A, p.71.

structural reform may be resented by those countries - such as West Germany, Italy and Belgium, and also Britain if she becomes a member - whose receipts from the Agricultural Fund are likely to be lower than their payments to the Fund.

We have been able to make an estimate of the annual cost of the proposed reform in the U.K. only with regard to the withdrawal of farmers aged 55 or over. These estimates - discussed in section 6 (b) (i) - add up to an annual sum of £4.49 million, of which £2.245 million would be contributed by the E.E.C. Agricultural Fund. The average annual cost of this item for the present members of the Community has been estimated at £123 million during the first five years, with the E.E.C. Fund contributing £61.5 million.[1] The ratio of the likely U.K. receipts from the Agricultural Fund to those of the other countries under this heading, i.e., 2.245/61.5, is obviously very much lower than the ratio of their respective contributions to the Agricultural Fund.[2]

It has not been found possible to estimate the likely amounts of British receipts from the E.E.C. Agricultural Fund under the remaining parts of the reform programme. Nevertheless, even if - as seems likely - the application of the reform programme increases the net cost of British membership for the first few years, the programme may be in Britain's interest in the long run. This is because the elimination of small, uneconomic farms throughout the Community should make possible a reduction in some of the support prices. At the same time, the increased

1 (6), part II, Annex p.2.

2 Although Britain's prospective share is not known at the time of writing, the British White Paper on the economic aspects of British membership assumes a share of either 15 or 20% for the purpose of indicating the possible amounts of the British contribution. See (2), p.20.

rate of withdrawal from farming should slow down or even reverse the increasing trend of agricultural production which has made the high price support expenditure necessary. Lower support prices would reduce the amount of import levies and of each country's necessary contribution to the Agricultural Fund; and a decrease in surpluses of agricultural products would further reduce the need for these contributions. As mentioned above, withdrawal of farmers from agriculture is not likely to be on a sufficiently large scale in Britain to cause a decrease in Britain's agricultural output. Thus, the lightening of the burden on our balance of payments through lower levies and contributions to the Agricultural Fund is not likely to be counteracted by a need for greater food imports.

Finally, one may wonder about the effect of the reform programme on food prices. The proposed withdrawal of land and manpower from agriculture is likely to act as a brake on the present E.E.C. members' farm output. In a free market this would probably result in an increase of food prices. However, the prices of most agricultural products in the E.E.C. are not free market prices but are largely determined by the market intervention of the authorities and by the level of import levies. The levies and intervention prices are likely to be reduced if the proposed reforms are carried out because the reform programme should decrease production costs. This should have a downward effect on retail prices, greater than the upward effect of the diminishing, or more slowly increasing, supply of home-produced food. If food prices do, in fact, fall, they will reduce the increase in the cost of living which has been forecast as an unwelcome effect of Britain's entry into the Common Market.

Appendix 1

Minimum labour requirements and the original Mansholt plan

The proposed directive on farm modernisation - (6), part I - gives the minimum labour requirements for farmers applying for aid as two man-years. The original Mansholt plan - (4), Part A, p.55 - gives examples of minimum sizes of enterprise qualifying for aid as "Production Units". By using data of standard labour requirements, mainly from Ref. (20), pp.4-6, it is possible to convert these enterprise sizes into man-years, as follows:

(N.B. 1 man-year = 275 man-days.)

Grains. 80 hectares, i.e., approximately 200 acres, at 2 man-days = 400 man-days = 1.5 man years.

Roots. 80 hectares, i.e., approximately 200 acres, at 10 man-days = 2,000 man-days = 7.3 man years.

Dairying. 40 cows. Assume 1.4 forage acres per cow, on the basis of Ref. (25), p.24. Therefore 56 acres are required, at 10 man-days = 560 man-days = 2 man-years.

Beef. 150 cattle. On the basis of Ref. (22), we assume 1 acre per animal. Therefore, 150 acres are required, at 2.5 man-days = 375 man-days = 1.4 man-years.

Eggs. 10,000 hens at 0.1 man-days = 1,000 man-days = 3.6 man-years.

Pigs. 450 fattened "at a time" at 1 man-day per head = 450 man-days = 1.6 man-years.

Appendix 2

Comparison of E.E.C. withdrawal grant and net farm income

From groups of farms analysed in ref. (21) those were selected which had the lowest average expenditure on rent and rates. It was estimated - on the basis of accounts for small farms participating in Manchester University's farm management survey - that rent constitutes, on average, 95% of the "rent and rates" expenditure. This amount, multiplied by eight, is entered in our Table 3 as estimated grant.

In order to estimate income at E.E.C. prices, output prices were recalculated, using E.E.C. basic intervention prices, and the cost of feed and fertiliser was adjusted according to the author's estimates of their average prices in the E.E.C. The following are indices of the assumed E.E.C. prices with U.K. 1968 prices taken as 100:

Wheat	152.5
Barley	148.6
Sugar beet	120.1
Milk	119.9
Cattle	133.9
Pigs	102.1
Feed	155.1
Fertiliser	157.0

Prices of other products and inputs were assumed to be unchanged. The original output and expenditure data refer to the year 1968.

Appendix 3

Output per man-year in E.E.C. agriculture

(N.B. As noted in the main text, the minimum "reduced" gross output, i.e., total output less seed and feed used, under the E.E.C. modernisation proposals is £4167 per man-year.)

(1) West Germany. Estimates based on data in the 1970 Green Report, pp.249-257.

Type of farm	Size range, hectares	Year 1968/9 Average "reduced" gross output per man-year, £
Root crops	Under 20	2376
	20-50	3201
	50 & over	4219
Cereals	Under 20	2090
	20-50	2883
	50 & over	3810
Livestock	Under 20	2050
	20-50	2490
	50 & over	2574

(2) Netherlands. Estimate based on data in Landbouwcijfers 1970 (Landbouw-Economisch Instituut). From data on p.147, "reduced" gross output of agriculture can be estimated at 69.6 per cent of gross output. Applied to the figure of gross output per man-year on p.152, this gives an estimated "reduced" gross output of £1857 per man-year in 1967.

(3) The Six and the U.K. While differences in gross output per man may not accurately reflect the position with regard to "reduced" gross output, they may be used as an approximation. The following results, taken from International comparison of agricultural productivities by Y. Hayami and

K. Inagi (The Farm Economist, XI, 10, 1969), show that only Belgium and Luxemburg, among the E.E.C. members, had a higher gross agricultural output per male than the United Kingdom. Table 4 in the main text shows the great gap between the majority of British farms' net output per man and the "target" of £4167. Thus, it seems unlikely that even in Belgium and Luxemburg many farms would achieve this target easily.

Gross agricultural output per male
1957-62. (annual average)

Country	Wheat units
Belgium and Luxemburg	45.7
France	37.0
Germany, Fed.Rep.	34.4
Italy	14.4
Netherlands	40.6
U.K.	41.4

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