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**FOREIGN
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**An Evaluation of
West Germany's
Domestic Agricultural
Assistance Program.**

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The West German Agricultural Act of 1955 states that agriculture should share in the progressive development of the economy. The Act requires the Federal Government to submit annually to parliament a statement (Green Report) on agricultural conditions showing, for various types of farming and for different farm sizes: (1) the extent to which remuneration of agricultural labor, on holdings of average production conditions and proper management, was in line with that of wage earners in comparable nonagricultural occupations in rural areas; (2) whether managerial activity in agriculture was sufficiently rewarded; and (3) whether adequate interest was obtained on the capital necessary for efficient agricultural production.

On the basis of this report, parliament decides on a program of assistance to agriculture (Green Plan). On February 8, 1963, the eighth Green Report was submitted, describing West German agriculture during 1961/62, a year dominated by very poor grain and root crop harvests and a resulting decline in farm income.

The income disparity for the agricultural sector as a whole, compared with the income objective according to the Agricultural Act, was calculated at 38 percent for 1961/62, the highest during the period of the Act. The increase was attributed to the low crop output, resulting in the need to purchase larger than normal amounts of animal feeds. Thus, total cash receipts remained almost constant from 1960/61 to 1961/62, while total cash expenditures rose almost 8 percent.

Unsatisfactory incomes in West German agriculture are to a large extent due to many farms being too small to make full use of modern farming techniques. This unfavorable structural situation constitutes a serious drawback, particularly in the central and southern parts of the country. In these regions, the historical splitting up of farms into widely scattered plots, inadequate road systems, and concentration of farmsteads in congested villages constitute major obstacles to agricultural progress.

^{1/} Based on a report from U.S. Embassy, Bonn, Federal Republic of Germany, Paul G. Minneman, Agricultural Attache.

THE GREEN REPORT

In 1962, about 13 percent of the economically active population was engaged in agriculture, which accounted for \$4.5 billion or about 6 percent of the Gross National Product. Farm purchases from the nonagricultural sector amounted to an estimated \$4 billion. The share of farm products in foreign trade, primarily farm imports because agricultural exports are negligible in West Germany, was considerable. Although the degree of self-sufficiency in food in recent years has amounted to approximately 75 percent (including the value of imported feeds), the value of agricultural imports (excluding coffee and tobacco) amounted to \$3 billion or 25 percent of total imports during 1961/62 compared with an annual average of 24 percent for 1959/60-1961/62.

Farm Structure

The total number of farms continued to decline in West Germany last year, while the average size of farm increased only 1 percent (see Table 1).

Table 1.--West Germany: Number and average size of farm by farm size group, 1949, 1961, and 1962

Year	Farm size group (hectares)							
	0.5-2	2-5	5-10	10-20	20-50	50-100	Over 100	Total
	Number of farms (1,000)							
1949	602.6	555.1	404.5	256.4	112.7	12.7	3.1	1,947.6
1961	457.0	384.0	336.6	289.5	123.8	13.5	2.7	1,607.1
1962	446.7	379.5	323.9	293.2	124.6	13.3	2.7	1,583.9

Percent change

1962 over 1949	-25.9	-31.6	-19.9	+14.4	+10.6	+4.7	-12.9	-18.7
1962 over 1961	- 2.3	- 1.2	- 3.8	+ 1.3	+ 0.1	-1.5	0	- 1.4

Average size of farm (hectares)

1949	1.09	3.31	7.08	13.82	28.85	64.81	184.59	6.95
1961	1.07	3.32	7.24	13.93	28.74	64.75	172.72	8.17
1962	1.06	3.31	7.29	14.01	28.74	65.31	174.01	8.27

Percent change

1962 over 1949	-2.8	0	+3.0	+1.3	-0.3	+0.8	-5.7	+19.0
1962 over 1961	-0.9	-0.3	+0.7	+0.6	0	+0.9	+0.7	+ 1.2

1 hectare = 2.471 acres

While some farms of less than 10 hectares have been abandoned since 1949, others in this category have been enlarged from land acquired from retiring farmers and shifted into the size classes of 10 hectares or more. Studies in various parts of West Germany reveal that only one-third of all farms liquidated were abandoned because the owners preferred work in nonagricultural occupations. The remainder were given up mainly because the owners retired on account of age. Only a small amount of this land was converted to non-agricultural uses. Land remaining in agriculture was not sold but merely leased, thereby increasing the proportion of rented land in the commercial farm sector (farm 10 hectares or more).

Farm labor

In 1961/62, the movement from agricultural to nonagricultural occupations continued, although at a slower rate than in previous years (see Table 2). The continuing decline in the number of hired workers on farms of 10 hectares or more requires technological changes. This involves not only the substitution of machines for labor but also modifications of cropping patterns and the composition of farm output. Increased mechanization requires skilled farm labor, which is frequently unobtainable except at very high wages. Unskilled farm labor also has become scarce and expensive. Consequently, many farms in northern Germany during the 1961/62 season were faced with labor shortages which, aggravated by unfavorable weather, resulted in the partial use of the army during harvest time.

Farm investments

For the first time in recent years, gross farm investment (expenditures for buildings and machinery, including changes in livestock numbers) in 1961/62 remained practically at the same level as in the previous year. Investments in 1961/62, excluding increases in livestock inventory, amounted to \$875 million of which \$490 million was invested in replacing existing buildings and machinery. Thus, net investments for new buildings and machinery amounted to \$385 million compared with \$444 million in the previous year. The smaller purchases of new machinery may possibly be attributed to the degree of mechanical saturation (primarily tractors and combines) already attained on many farms. However, additional factors were the lower profits and reluctance of farm managers to invest more capital because of the uncertainties of future German agricultural policies. In contrast, the increased spending on farm buildings was largely prompted by the need to increase efficiency by modernizing the internal structure of buildings to offset the lack of farm labor.

Farm receipts and expenditures

Cash receipts from farm marketings increased only \$73 million in 1961/62 compared with an annual average increase of \$225 million during the previous 9 years. On the other hand, farm expenditures during 1961/62 increased 4 times as much or \$300 million (see Table 3). Approximately 85 percent of this increase can be attributed to larger feed purchases, which were a direct result of the short 1961 feed crop. In addition, expenditures for new construction and wages increased considerably, the latter despite a decline in the number of farm wage earners.

Table 2.--West Germany: Number of persons employed in agriculture on holdings larger than 0.5 ha., average prewar, 1950/51 and 1958/59 to 1961/62

Year	Agricultural labor force						Total labor units <u>1/</u>
	Permanent			Temporary			
	Family	Hired	Total	Family	Hired	Total	
	: - - - - - <u>1,000</u> - - - - -						
Prewar	4,433	753	5,186	1,130	360	1,490	3,852
1950/51	4,380	766	5,146	1,180	450	1,630	3,885
1958/59	3,201	440	3,641	1,419	454	1,873	2,748
1959/60	3,083	358	3,441	1,330	359	1,689	2,561
1960/61 <u>2/</u>	3,006	327	3,333	1,263	286	1,549	2,400
1961/62	2,930	295	3,225	1,261	284	1,545	2,318

^{1/} A labor unit refers to the equivalent of an adult working 2,500 hours a year. The work time of workers under 16 and over 65 years of age is adjusted by factors of 0.5 and 0.3, respectively. Thus, totals of permanent and temporary agricultural labor force are larger than derived total labor units.

^{2/} Saarland included since 1960/61.

A major objective of West German agricultural policy is to improve farm income to a level comparable with that received in other sectors of the economy. Comparison of the difference between cash receipts and cash expenditures is considered too rough a measure of the net income position of farmers. A more precise assessment of farm incomes is derived on the basis of a sample survey, which includes the farm accounts of about 8,000 properly managed average farms. On the basis of this survey, "net income from farming" is computed (see Table 4). Net farm income minus interest on invested capital and minus entrepreneurial compensations provides a measure of the labor income in agriculture. A comparison of this agricultural labor income and wages paid in "comparable nonagricultural occupations" is intended to show the degree of disparity between farm and nonfarm incomes.

In 1961/62, the degree of disparity was higher than in any of the past 7 years under the present agricultural law. The disparity between farm and nonfarm incomes was estimated by the Government to amount to 38 percent in 1961/62 compared with 26 percent in the previous year. If the Government had not supported farm income through the Green Plan, that is, with direct governmental subsidies, the degree of disparity would have been an estimated 51 percent. Thus, to overcome the income disparity in agriculture, the Government would have had to triple the amount of direct subsidies paid under the Green Plan, assuming no changes in the price support programs. These are the more important elements of agricultural income support.

Table 3.--West Germany: Cash receipts from farm marketings and expenditures, 1958/59 to 1962/63

Items	:1958/59:	:1959/60:	:1960/61:	:1961/62:	:1962/63 <u>1/</u>
	: - - - - - Million dollars - - - - -				
<u>Cash receipts</u>	:	:	:	:	:
Grains	: 483	: 536	: 579	: 414	: <u>2/</u>
Potatoes	: 225	: 270	: 190	: 242	: <u>2/</u>
Sugar beets	: 215	: 175	: 230	: 168	: <u>2/</u>
Special crops <u>3/</u>	: 380	: 337	: 345	: 369	: <u>2/</u>
Other	: 11	: 10	: 11	: 13	: <u>2/</u>
Total crops	: 1,314	: 1,328	: 1,355	: 1,205	: 1,350
Cattle and calves	: 795	: 872	: 916	: 949	: <u>2/</u>
Hogs	: 1,025	: 1,028	: 1,103	: 1,166	: <u>2/</u>
Milk, cow's	: 1,242	: 1,319	: 1,363	: 1,478	: <u>2/</u>
Eggs	: 191	: 210	: 256	: 262	: <u>2/</u>
Other	: 68	: 74	: 75	: 80	: <u>2/</u>
Total livestock	: 3,321	: 3,503	: 3,713	: 3,935	: 4,125
<u>Total cash receipts</u>	: 4,635	: 4,831	: 5,068	: 5,141	: 5,475
<u>Cash expenditures</u>	:	:	:	:	:
Current expenditures	: 2,681	: 2,899	: 2,854	: 3,175	: 3,225
Replacement expenditures	: 380	: 414	: 449	: 490	: 525
Net investment	: 288	: 343	: 444	: 385	: 413
Personal taxes, etc.	: 69	: 68	: 69	: 69	: 68
<u>Total cash expenditures</u>	: 3,418	: 3,724	: 3,816	: 4,119	: 4,231
Cash receipts less total cash expenditures	: 1,217	: 1,107	: 1,252	: 1,022	: 1,244

1/ Forecast.

2/ Not available.

3/ Vegetables, fruits, wine, hops, and tobacco.

Table 4.--West Germany: Farm income, farm labor income, and wages in comparable nonfarm occupations, 1959/60 to 1961/62 based on sample of 8,000 farms

Item	Measure	1959/60	1960/61	1961/62
		Dollars		
Gross farm income	Per ha. farm land	475	494	509
	Per full work unit	2,969	3,164	3,556
Net farm income	Per ha. farm land	201	218	196
	Per full work unit	1,255	1,396	1,371
Farm work income	Per full work unit <u>1/</u>	905	1,002	925
	Per full work unit <u>2/</u>	758	829	731
Wages in comparable nonfarm occupations	Per person	1,237	1,360	1,494
Disparity	No adjustment for subsidies	332	358	569
	Adjusted for subsidies	479	531	763

1/ Net farm income from farming minus allowance for interest on invested capital (3-1/3 percent), allowance for managerial activity, and employers' contributions to social security for farm workers. Including subsidies.

2/ Same as 1/ except excludes subsidies.

Other methods of farm support include the various market laws, some of which have been superseded by European Economic Community (EEC) market orders and measures of trade protection. The mechanism of price support for grains has been altered to conform with the EEC Grain Ordinance, although the current intervention price (support price) for wheat, minus handling charges, corresponds approximately to the former fixed support price. Market laws for livestock and meat, except for live hogs and pork carcasses (now under EEC market regulations), require the Ministry of Agriculture to establish an annual supply and distribution plan including import requirements. Prices are not fixed directly but are influenced through import controls and domestic market intervention purchases by the appropriate import and storage agency. Poultry and eggs are now subject to similar EEC regulations, except that there are no minimum prices on imports from other EEC countries. Other livestock products (milk and dairy products) and fats and oils also are subject to market laws under which wholesale and retail prices are fixed (milk), prices are regulated through intervention purchases (butter), and strict import controls are imposed.

Before EEC's Common Agricultural Policy (CAP) was put into effect, about three-fourths of Germany's domestic farm output was protected by quantitative import controls. Those commodities now subject to CAP regulations (wheat, wheat

flour, feed grains, poultry, eggs, live hogs, whole hog carcasses, fruits, vegetables, and wine) are no longer subject to these import controls. However, some of these products are still subject to escape clause action and, in some cases, import licenses as well as variable import levies and/or minimum import prices.

THE GREEN PLANS

With the agricultural situation unfavorable, as outlined in the Green Report, the Government proposed an increase in the total outlay envisaged under the 1963 Green Plan. According to the draft bill, expenditures were to be raised to \$527.5 million in 1963 compared with \$502.5 million in 1962 (see Table 5). These figures exclude approximately \$29.5 million in 1962 and \$34.5 million in 1963 for programs under the 1962 Green Plan. The programs are continuing outside the Green Plan in 1963. The West German Parliament Budget Committee has suggested a supplementary fund of \$50.6 million for these programs. They are to be used primarily to subsidize interest payments, for milk subsidies, and for the promotion of vertical and horizontal integration.

Table 5.--West Germany: Agricultural appropriations under the Green Plans, budgeted 1962 and draft 1963

Programs	:	1962	:	1963	:	Change
	:		:		:	
	:	Million	:	Million	:	
	:	dollars	:	dollars	:	Percent
Improvement of farm organization and working and living conditions	:	201.3	:	239.0	:	+18.7
Improving efficiency of production	:	56.5	:	29.8	:	-47.3
Promotion of quality and marketing	:	157.9	:	162.4	:	+ 2.8
Other farm income support	:	32.0	:	34.4	:	+ 7.5
Interest subsidies	:	56.0	:	63.1	:	+12.7
Total - excluding shifted funds	:	503.7	:	528.7	:	+ 5.0
Programs shifted from Green Plan to other sections of the Agricultural Budget for 1963 ^{1/}	:	39.5	:	34.5	:	-12.7
Total - including shifted funds	:	543.2	:	563.2	:	+ 3.7

^{1/} Including such programs as rural electrification, promoting wine storage, etc., old age pension fund, improving quality and marketing of various crops and livestock products, and milk breakfasts at schools.

The major increase for 1963 is for the improvement of farm organization programs through land consolidation, enlarging farms, transferring farm buildings from villages to better locations, and special assistance to depressed areas.

The major decrease is in a program for improving production efficiency. This is a result of the curtailment of the commercial fertilizer subsidy, which is being eliminated after successful completion of a 3-year program.

Expenditures under the Green Plan, although the largest category, are not the only assistance provided German agriculture by the Federal Government. In addition, approximately \$200 million is spent each year for farm support, primarily through various market orders (some of which have been superseded by EEC market orders) and other measures of trade protection. Agriculture in West Germany also benefits substantially from tax exemptions or tax reductions, which average about \$128 million annually and are not granted to other sectors of the economy. Provincial agricultural budgets also include assistance to farmers, but details are not readily available.

OUTLOOK

The Federal Government forecasts an increase in net cash receipts of \$222 million for 1962/63 over the previous year (see Table 3). The total would be around \$1.25 billion obtained from farm marketings in 1960/61, a relatively good year for German agriculture. The good feed crop of 1962 should diminish the rate of increase in current cash expenditures during 1962/63. The forecast is for current expenditures to increase only \$50 million from 1961/62 to 1962/63 compared with an increase of \$321 million the previous year. In contrast, gross cash receipts are forecast to increase \$334 million during 1962/63 compared with only \$73 million a year earlier.

It is thus probable that the farm-nonfarm income disparity in 1962/63, as measured by the Federal Government, will be smaller than that experienced in 1961/62. However, it is not expected to return to the 26 percent level of 1960/61.

During 1962/63, no significant increases in support prices are planned, and only a modest increase in "Green Plan" direct subsidies is proposed. This, coupled with growing pressure from the nonfarm labor force for increased wages, may partially offset gains made in the net cash receipts position expected for 1962/63.

Thus, while the farm income situation is expected to improve during 1962/63, the comparable nonfarm income position also is forecast to improve--but at a slower rate. Therefore, disparity between farm and nonfarm incomes is expected to show some narrowing during 1962/63, although continuing as a major problem facing German agricultural policy makers and farmers.

