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The economics of very small farms

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INTRODUCTION

Investigations into the economics of agriculture in the UK have been undertaken by Departments of Agricultural Economics for over 50 years. Financed by MAFF, the Farm Management Survey, now renamed the Farm Business Survey, has been an important part of the work, and has provided, annually, an estimate of the level of Farm Incomes in the UK, for different sizes and types of farm. However, this survey has not included very small farm businesses. Specifically, it has excluded farms which are of less than 4 British Size Units (BSUs). This measure is based on the financial concept of Standard Gross Margins, which is now used throughout the European Community, as a measure of farm size. In more understandable language, a farm of less than 4 BSUs is not deemed large enough to provide full-time employment for one person. There are about 100 000 agricultural holdings in the UK (out of a total of 250 000) which fall into this category.

In order to remove some of the ignorance about the economic circumstances of these businesses a national survey was carried out between 1986 and 1989, and coordinated by the Department of Agricultural Economics & Management at the University of Reading. A survey of 500 holdings in England, Wales and Northern Ireland was undertaken in 1986 and 1987, and a further survey of 1100 holdings in England and Wales in 1988 and 1989. A separate, but similar, study was conducted in Scotland in 1987 and 1988.

The surveys had three main objectives:

- (i) to provide detailed information about the farming activities being practised;
- (ii) to measure the levels of profitability being generated by these activities;
- (iii) to identify non-farming employment and the income generated by it.

This paper reports on some of the findings of those surveys as they apply to England and Wales.

THE DISTRIBUTION OF VERY SMALL FARMS BY TYPE AND REGION

If maximisation of net farm income was the objective, and if availability of land was the major constraint, one might expect the predominant enterprises on very small farms to be those that used land intensively. This, however, is not the case. An examination of the enterprise structure of very small farms reveals that over half of them were predominantly beef and sheep, and only 10% were pigs and poultry, or horticulture. The narrow input/output margins for these latter enterprises, and the increasing existence of economies of scale, clearly make them unattractive propositions for the small farmer. Small dairy farms are also of minor importance. Only 4% of all very small farms have a dairy enterprise.

Very small farms are to be found in all parts of England and Wales, but they are more thickly concentrated in certain areas. There are more up the Western side of the country than the East, and they are particularly prevalent in the South-West, South Wales and the North-West. There are relatively few in East Anglia and the East Midlands, or in the other predominantly arable areas.

FARM AND NON-FARM INCOMES

Detailed examination of the costs and returns from the farms in the survey suggests that their ability to generate a profit is minimal. Profits (Net Farm Income) are measured in hundreds rather than thousands of pounds, and not always that. Data relating to the allocation of labour between farm and non-farm work refute the notion, however, that these are 'hobby farms', with minimal input of family labour. The average labour input for most farm types is over one thousand hours of labour a year, which is equivalent to 125 eight-hour days, or about half a normal working year, and many families are putting in a good deal more than that. The financial rewards for so doing are negligible. These averages conceal a certain amount of variation between different types of holding. Dairy holdings had slightly higher profits than other types, but labour inputs were also higher, so the return to

family labour was still very low. The most significant group numerically - the lowland beef and sheep producers - just about broke even, despite working 165 days per year on their holding.

To conclude, most very small farms make very little profit. Their owners are able to continue farming because of their non-farm income, which in almost all cases is 90% or more of their total incomes. Their total on- and off-farm incomes are not on the whole high. There are a few who make a reasonable living from farming and a few who have considerable outside income, but most small farmers are relatively poor.

MOTIVATION

The preceding discussion raises the question as to why a considerable number of people continue to operate these small farm businesses, working considerable hours, for little financial reward. The surveys described above attempted to throw light on this question by asking farmers the main reasons they were occupying the holdings, and what their original objectives were when they first occupied the holding. The answers to this question suggest that the 'hobby farm' is not an important explanation of the existence of these small farms.

The most frequent response to the first question (what was the main reason for occupying the holding now?) was that the holding was used for commercial agriculture, and the primary objective was to earn income by the commercial exploitation of agricultural resources. The second most important reason was that the holding was valued as a desirable residence. There are some important regional variations in this question of current motivation. The proportion citing commercial farming as their major motivation is lower in the South and South-East than it is elsewhere, apart from the province covered by Manchester University which includes much of the Pennines. Conversely, the proportion citing residential factors as the main reason why they are occupying their holdings is highest in the Manchester and Southern Provinces.

As far as the original objectives in occupying the holding are concerned, the desire to farm again predominates. Two-thirds of all respondents gave this as their principal original reason for occupying the holding. This applies to all farm types. It was also noticeable that many of the farmers had occupied their holdings for many years: 75% of dairy farmers and 60% of lowland livestock farmers had occupied their holdings for more than 10 years. There was no suggestion in the pattern of response to these questions that there was rapid movement between holdings, up or down the farming ladder or in and out of farming. On the contrary, this appears to be a particularly immobile section of the population. The picture that emerges, therefore, is of a

group of individuals who had aspired to farm and, having been successful in gaining a foothold in the industry, had been content to stay there even if expansion had proved impossible. Furthermore, most of them suggested that they anticipated no major change in the use of the holding over the next five years.

WHO ARE SMALL FARMERS?

Farming is a diverse activity and farmers are a very mixed group of people in terms of their objectives, professional skills, educational background, and material circumstances. This is equally true of small farmers. There are few common economic, social, or cultural characteristics which particularly distinguish this group. There are, however, some indicators from our survey work of how they came to be engaged in their present occupation.

Forty per cent of all farmers surveyed had some kind of non-agricultural employment before they embarked on farming, another 20% had been agricultural workers, and another 16% had been operating other (normally larger) holdings. There were few young men or women among the sample interviewed: only 4% of dairy farmers were under the age of 34, only 7% of beef and sheep producers and only 9% of cropping farmers. It would be a mistake, however, to regard this group of individuals as being 'failed' farmers, eking out a rather miserable existence, and unable to escape from the drudgery of routine farm tasks carried out with inadequate equipment. Most of them were generally satisfied with their circumstances. Two-thirds of all farmers saw no disadvantages in occupying their present holding and most saw positive advantages in living in the countryside, and even more in the ability it gave them to be actively involved in farming.

NON-FARM INCOME AND EMPLOYMENT

It should be clear from what has been already said, that almost all the farms in the survey had non-farm income sources, and often non-farm employment. In most cases non-farm income exceeded farm income. If we take the most numerous group, lowland beef and sheep producers, 52% of farmers had a non-farm income of more than £10 000, but only 3% had farm income of more than £10 000. For cropping farms the proportions were 36% and 3%, respectively, and for horticulture 43% and zero.

Off-farm income was divided into earnings from employment, earnings from self-employment and unearned income. There is a huge array of activities that people combine with farming. On the whole, income from self-employment was more important than employment. Two groups stand out amongst the self-employed. One is professional

people, who really are farming for a 'hobby', and another significant group comprises those who sell their own manual labour, sometimes within agriculture, but more often without it.

Unearned income takes the form mainly of pensions, although investment income was important for a considerable number of farmers. There is a significant difference in this respect between beef and sheep farms where unearned income averaged over £4000 per year, two thirds of which was investment income, and all the other farm types, where unearned income was less than half this amount and where the proportion of investment income was half or less.

CONCLUSIONS

There are 250 000 agricultural holdings in the UK, and 40% of these are part-time in the sense that they do not generate a full-time work commitment for one individual. They account for an insignificant proportion of agricultural output and they generate little income for their owners. Over half of the holdings are engaged in beef and sheep production (not including those in LFAs), and these are nearest to what are frequently termed 'hobby farms'. Even in this category, however, important motivation seems to be the wish to generate income. As far as the rest are concerned, they are run, more or less, as commercial enterprises. Off-farm sources of income enable these farmers to survive, and the amenity value of their holdings and the interest value of farming persuades them to continue. There are a small number of cases where genuine financial hardship exists, but most small farmers seem relatively content with their lot.

The numbers of very small farmers are declining, but only slowly, although the small number of farmers in the early stages of their career suggests this may accelerate in the future. A substantial proportion of small farmers have been on their current holdings for many years, suggesting it is not something certain categories of people turn to in their middle years. Crop and animal husbandry is becoming ever more complicated, and the capital requirements higher and higher. Whilst the current generation of very small farmers has no plans to withdraw from the industry, it seems doubtful whether the next generation will exhibit the same enthusiasm for what is, financially at least, a rather unrewarding task.

NOTE

The surveys, upon which this short paper is based, have been written up in detail by Ansell *et al* (1988, 1989, 1990, 1991).

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