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THE CHANGING POLICY SITUATION, WITH PARTICULAR REFERENCE TO MAINTAINING FARM SIZE AND STRUCTURE

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Abstract

This paper is designed to prompt discussion on the factors that influence farm size. The advantages of the larger unit, cumulating in financial efficiency, are identified while central non-farming issues are balanced against the range of other factors that ensure a range in farm size is maintained in most countries.

Introduction

At a time when many countries are debating new policies for operating their agricultural industries and changing the structures within farming and the place of the farmer in their societies, I would particularly draw attention to the main issues, that are likely to trigger changes in the size of farms and the organisation of farm businesses. These are issues which should be given consideration during the ongoing debate on the breakup of large farm units in Eastern Europe, the amalgamation of small farming units in Western Europe, and support for the continued existence globally of the small farmer.

An economic social or political argument?

Political changes in Eastern Europe have brought with them the desire to alter farm structure. The aim has often been the scaling down of very large state farms, to placing the land in private ownership. In doing this governments are seen as carrying out democratic processes. Such changes can have many effects within economies, on the farm support industries, the farm workers and the potential economic efficiency of the farms.

In Western agricultural societies farm structure has moved towards larger units which can capitalize on advances in technology and the economics of large scale operations. Small farms are often regarded as inefficient and costly in government assistance, but are considered sufficiently valuable to play a large part in influencing national policies that continue to give price and income support.

I believe in the survival of the small farm as it exists in northwest Europe. This judgement is tempered by my own support for policies that have social and environmental objectives. An effective farming industry depends upon a balance being kept between the economic and political arguments that have been established by economists within the European Community and North America.

Change is a valuable part of the evolutionary dynamics of any part of an economy and farming is not an exception to this. Change however must be, considered, planned and must be gradual. This is not only because of the effects that change is likely to have on farmers but because of what it can do to the multiplicity of associated farm industries, eg agricultural engineering; agricultural suppliers; biological and chemically based industries; food processing; distribution and related industries; research and advisory services; all the sectors that depend for their survival on farming. It is also important that change and its effects are considered and debated because of the long term security of the world populations food supply.

Change affects the people who work on the farms in a direct way. They may have to gain greater skills, do less physical work, earn greater rewards. Alternatively change is reflected in a reduction in the farming workforce with subsequent redundancies, movement away from rural areas and disruption of family and social life. Change may also mean the introduction of new enterprises, new developments and wider use of resources than just for food production.

Two sets of factors influence farm size. The physical and financial constraints linked to the situation and the farmer; and the general factors less easily described and quantified, ranging from those national to those family eg social, population pressure and political influences. People and pressure groups have their demands, many of which hold special priorities in the eyes of decision makers.

The association of ideas in Western Europe and North America.

During the second half of the twentieth century the association of ideas in Western democracies has paired small farms with protection and large farms with free marketing. There are also examples of cooperative groups of small farms, and large individual farm business organisations which are termed, from their origin rather than their current structures, 'cooperatives'.

Some of the better examples of the former of these types of cooperative are seen in Western Europe. The Danish cooperative situation has been put forward as an excellent example of the cooperative operation in which farmers work in groups in order to benefit from both production and marketing. There are relatively few of the latter type of cooperative, there being one significant example in the United Kingdom which has a number of farming operations under its umbrella giving it considerable advantages of scale at the production and marketing levels.

The questions that arise in any discussion on the size of farms are basic. Farmers, - the people who are husbandry-men first and businessmen second, are interested in the size of a farm which will allow efficient operations and a satisfactory income; and which possibly will satisfy their ambitions. If the first two of these objectives may be termed farm efficiency, people who are businessmen first would also feel satisfied at fulfilling these criteria. Investors are interested in returns on their capital, which also amounts to the same thing.

Those land based individuals, interested in land ownership, eg estate owners, owner occupiers, even though not farming the land themselves, may wish to maintain the amount of land they hold intact, and in good condition, at any price even though their practices are not ranked highly efficient as long as they survive. Obviously being efficient would add greatly to their power to do this.

Economics of scale

At lower farm sizes, farmers are forced into intensive production for two reasons, to generate sufficient income to provide a living wage, and to build up the business to a size adequate to allow payment for an employee. At large farm size levels in Eastern Europe, 10,000 hectare plus, the physical problems occur in two major areas, efficiency of labour and machinery use and low performance levels. While much of the organisational and technical aspects could be improved through management and technical training, worker incentive and under-capitalization in many situations cannot be cured so easily.

Farm management decision making procedures have focused on relating capital used to operational activity and optimum size for given sets of constraints. There is a continued need for application of farm management planning in this area. Further measures are also necessary to develop the intrinsic advantages in volume of production from large farms in the marketing area.

Farms have grown in size where no outside constraints have been imposed upon them, because of the greater efficiency from mechanization and specialization. Technical innovations, which give increased returns to justify high financial investment; labour diversification and the advantages that follow, eg single individuals or machines being able to cope with greater areas of crops under production; the spreading of fixed costs over units of a greater area, have provided the greatest incentive to increase farm size. Easier access to capital by those operating large scale units, allows larger units to consolidate their positions, and grow when opportunities arise. The potential to take advantage of managerial and organisational skills as a result of better training among managers and workers and a more formal structure for promotion give additional power to well managed large units. Increased power and specialisation to negotiate when buying or selling obtains premium returns, which can be absent in the smaller farm business.

Key features arise in the discussion concerning the value of large units; on factors affecting efficiency in large farms, management skills, production at optimum resource investment, marketing effectively, capital availability and utilization become issues which carry great influence in the large versus small debate. This debate can move conclusively in favour of large farms on the basis of economics. At the overall assessment stage however, the people concerned in farming and their own limitations of ability and resources, become constraining influences on the optimum size of farm in a particular situation. The nature of the primary resource land and its adaptability to be utilized as a large unit become critical, and influences such developments as education, and prospects of deploying people who may be forced out of the industry into other sectors of the economy,

Issues beyond food production

Farming for food production while a primary use of the land resource in the countryside, is not its only use. It follows that other land uses may limit land available for farming and therefore farm unit size. The production economics of each agricultural situation do not always determine the limitation to the size of the individual farm unit. National interests, social and political influences; population patterns; all have their demands and one of these is, the political stability to be gained by a country from having a settled rural population.

How do these issues outside food production affect farm size and national farm policies? Possibly in two ways. They divert attention away from the efficiency of production argument, and focus on the individual person, that person's own objectives and the future structure of society. They also move the argument to expand the issue of costs beyond the farm gate, beyond the immediate future, and beyond those products easily identifiable in economic terms. They motivate political movement to support areas of farming which cannot contribute economically but may have things to offer a society which it needs, that have nothing to do with food production. They can falsify certain aspects of the case for small farms, because they have hidden one of the small farmers biggest problems throughout the world, poverty. Western society gave financial support to farmers for food production. Changes in policy have moved the emphasis from food to environment. Support is aimed at levels that ensure small farms are preserved through maintaining the income level of farmers. The developing world is trying to cope with poverty, through building a sustainable small family farming programme. When farm size drops below a certain level, either farm income drops to a poverty level, or government money must be spent on support. In most protected and supported agricultural communities the great majority of farm families with low incomes live on undersized, inadequate smallholdings. Where small farms and smallholdings already exist as an integral part of the agricultural economy then there are very often logical reasons, though not connected with agricultural production, for governments to sustain them.

Many large units could reduce the size of their operations and actually make greater profit by giving more attention to improved practices and improved management within their own business constraints. There seems little argument for dismantling large units below certain optimum size levels, which may well be specified on analysis of certain known criteria, when very often the problems shown up as inefficiencies are not attributable to the size factor. With or without the chance of outside financial support, larger farms have the potential to maintain financial performance without external financial aid.

Summary

It would not be progressive in countries who have had their agricultural industries based on large farm structures to reduce farm size below certain levels. Where this break up of large units is found to be necessary, the development of cooperatives for farmers could offer a programme for the smaller producers which maintained some of the benefits of scale, particularly in marketing. Work is needed on establishing the optimum size levels and ensuring that those advantages from an obsolete system which now remain are not discarded in the name of freedom. All things are relative, but to quote Kenneth Boulding, one of the most original of the later twentieth century economists, "freedom is a bit of a red herring",