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LOW INCOMES IN AGRICULTURE—PROBLEMS AND POLICIES IN THE O.E.C.D. COUNTRIES

A Review Article

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Introduction

The Organization for Economic Co-operation and Development (O.E.C.D.)¹ has terms of reference that it shall promote policies designed:

“—to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;

“—to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development;

“—to contribute to the expansion of world trade on a multi-lateral, non-discriminatory basis in accordance with international obligations.”²

The Organization views low-income problems in the agriculture of Member countries as important obstacles to successful achievement of these aims. It recognizes a need to integrate the agricultural sectors of these countries more fully into their overall economies, thus ensuring that agriculture should both gain from, and contribute to, general economic growth. As a basis for discussions of this problem, between the Ministers for Agriculture of Member countries, the Organization has now published a comprehensive report *Low Incomes in Agriculture—Problems and Policies*.³ This report is of substantial interest as a most thorough survey of the low-income problems of farmers in the advanced countries.

The report is not directly concerned with the general problem of the relation of farm to non-farm incomes, but concentrates attention on the lowest income groups. It examines the income situation of farm families in the light of existing information. For each Member country, the report attempts to identify low-income groups, to estimate their importance, and to analyse the factors responsible for their difficulties. It examines the policies pursued by Member countries and claims to attempt to analyse the extent to which the various measures adopted help low-income farmers and contribute towards an effective solution of the problem.

The report is divided into a General Part and Country Chapters and is prefaced by a summary of the problems, policies, and the conclusions reached. Accordingly, this review is organized into three further sections. The first of these sections gives a brief summary of the General Part of

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¹ The twenty-one Member countries of the Organization are: Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

² *Low Incomes in Agriculture—Problems and Policies*, Organization for Economic Co-operation and Development, Paris; 1964. Pp. 515. 42s. (Stg.) (The Australian O.E.C.D. Sales Agent is B.C.N. Agencies Pty. Ltd., 62 Wellington Parade, East Melbourne, C.2, Victoria.)

³ *Op. cit.*

the Report; the second illustrates the wealth of factual material that is to be found in the Country Chapters by a summary of the chapter devoted to Italy. The final section outlines the conclusions reached and gives attention to some shortcomings of the report.

The General Part

The first chapter in the General Part deals with the nature and extent of the low-income problem. The main problem is in discerning how many farmers are low-income farmers. This is hampered by the lack of comprehensive statistics in most countries. The few farmers that do keep accounts are those that are more progressive. Nor is there any available criteria for defining a low income, or when incomes become classed as low. Some countries set a floor income. For example, the United States considers any income below \$2,500 to be a low income. Other countries use labour requirements to get an indication of whether farm sizes are satisfactory. Cost of living has to be considered as it affects the living standards and the willingness of the farmer to stay on his farm.

For obvious reasons, most countries have not defined what constitutes a low-income farm. It is suggested that this is a step that should be taken, despite the difficulties. A sound agricultural policy cannot be devised without a clear idea of the requirements for viability. If these are not defined, there is a danger of maintaining in existence, or even of creating, farms which in the long run cannot be viable.

Among the factors associated with low-income farms the report draws attention to farm structure, farm location, type of farming and system of land tenure, and to the personal characteristics of farmers. To a large extent, and inevitably, discussions under these headings are repetitions of the obvious truths of the problem. Thus attention is drawn to the fact that the peasant farming system is a relic from feudal times when the inheritance laws divided each property between the heirs. This fragmentation results in small scale farming and poor management of scattered plots. There is little opportunity to take advantage of new technology, and the effects are not as great as on larger farms. The main result of a new technique is a reduction of time spent on the farm, leaving more time for a part-time job. Capital, when available, is not readily used by the small farmer because of the lack of a suitable management plan to make proper use of the borrowed money.

In almost every country it is found that in some regions average farm incomes are particularly low. These regional problems may arise from various factors affecting the relationships between the size of the farm population and the number of farms, and the natural resources and economic environment of the area. Brittany, the North of Portugal, parts of Spain, parts of Central and Southern Italy and the South-East of the United States are examples of regions characterized by a too-high density of agricultural population in relation to the available land resources. Many of the low-income regions in Europe are explained by unfavourable natural conditions. Mountainous areas are often remote from markets and are not readily suited to modern methods of agriculture.

The type of farming and system of land tenure affect incomes. Most low-income farms are characterized by labour intensive occupations with small units, which are uneconomic compared with the larger mechanized farms in other parts of the country (e.g., the small cotton and tobacco farms in the South-East of the United States). Sharefarmers usually lack security of tenure, capital, and possibilities for alternative employment.

Personal characteristics of the farmer are also important. Low incomes are often associated with regions where basic education is lacking. Age is important as the younger family members can be attracted to the city by the prospect of higher wages. This leaves the old folk on the farms and, because of their inflexibility, perpetuates the problem for the rest of their working life, which often extends to their death because of lack of opportunity for retirement. Thus in the United States 54 per cent of farmers classed as having low-incomes are aged 65 years or more, while the corresponding figure among the higher income groups is 7 per cent.

The final section of this Chapter deals with trends in the farm population and in the number and size of farms. In all countries, except Turkey, the active agricultural population has been falling in recent years. Six of the O.E.C.D. countries have lost more than 30 per cent of their active agricultural population over the period 1950 to 1961. In almost all countries for which figures are available, there have been relatively large falls (20 per cent or more) in the number of hired workers and the number of family workers. The fall in the number of farmers has not been so great. Despite the substantial declines observed, the final paragraph of the Chapter reads:—

“It remains doubtful whether regional disparities in agricultural incomes are tending to diminish, and, more generally, how far the fall in the number of farms, small farms in particular, is tending to solve the low-income problem. No doubt the number of holdings with incomes below a given absolute level is being reduced; but the proportion of farms earning incomes which appear low relatively to rising incomes in agriculture as a whole as well as in other sectors may not be falling.”⁴

Chapter Two is devoted to policy measures. The general objectives of relevant policies are listed as: for farmers to share in general development of living standards, to develop efficient agriculture, to achieve low food prices, and to stimulate economic growth. Although the report covers price supports, price fixing, and subsidies, as means of improving the lot of the farmer, the main emphasis is not on these short term measures but on long term solutions through economic development in depressed areas, the education of farmers and rural workers, and the amalgamation of small holdings into viable units. It is recognized that measures directly supporting farm incomes (price supports, differential prices and input subsidies) are applied indiscriminately and usually benefit farmers on larger farms more than the low-income farmers who sell little of their produce. Such measures discourage economic adjustment and have little effect on farm costs because labour is the main item on small farms. The limited role of advisory and research work in improving incomes on existing low-income farms is also mentioned. These services tend to be of most value to the more successful and enterprising farmers. The greatest weight is

⁴ *Op. cit.*, paragraph 56, p. 30.

therefore given to measures affecting the shape, size, and number of farms, including consolidation and enlargement of holdings. In almost all countries where the problem of fragmentation exists, Governments have taken action to promote consolidation.

Official action to stimulate enlargements or consolidation is limited by the rights of property. Except in Ireland, Sweden and Iceland, and for large holdings in some Southern European countries, Governments do not have authority to dispossess farm occupiers. Thus, in most countries of the O.E.C.D. Government agencies can intervene only when farms come on the market.

Attention is also given to measures promoting the cession of uneconomic farms. As most of the farmers on non-viable farms are elderly, a system of pensions or grants can be introduced to induce some farmers to retire and give up their land. This applies in France, the Netherlands, Austria and Ireland. German farmers are eligible for special old age pensions with board and lodging on the farm, on condition that they retire from farming. Land reform (the sub-division of large holdings) is considered outmoded in most of Europe except Italy, Greece, Spain, Portugal, Turkey, and Yugoslavia, where farms are still being created for the rural population. Attention is directed to the danger that the farms created in these latter countries may prove too small in the long run.

As it is considered that a major factor responsible for regional low-income problems is the general economic backwardness of the region, attention is given to the idea of special regional development programmes for such areas. These schemes are presented in enthusiastic terms.

"In such cases, the cure for the problems of agriculture appears to lie not only in action affecting agriculture directly but also in the overall economic development of the region. Adverse natural conditions may be countered through irrigation, flood control, drainage, afforestation and other measures. The improvement of the economic "infrastructure"—the construction of roads, the provision of electricity, water and other services—is a pre-condition for raising agricultural efficiency. Development of the non-farm sector, through the installation of new industries and services, the promotion of tourism, etc., benefits agriculture in various ways: the local market for farm produce is expanded, opportunities for part-time employment are created, and permanent transfers to other occupations facilitated; the entire outlook and educational standard of the farm community may thereby be changed."⁵

The effectiveness of programmes of this type in solving regional low-income problems is a point that will be taken up later in this article.

A particularly large regional development programme is being undertaken in Southern Italy and this will be referred to again. Certain areas of France, Spain, Greece and Turkey have also been designated for regional assistance on the basis of various criteria.

The final section of the Chapter refers to the role of part-time farming as a solution of low-income problems. This section does not present examples and notes that most Governments, while seeking in various ways to increase opportunities for employment in rural areas, have not indicated whether they regard part-time farming as a desirable objective.

⁵ *Op. cit.*, paragraph 121, p. 50.

The third chapter of the General Part of the report presents brief summaries of the Country Chapters. There is an annex to this Part which includes tables giving details, when they are available for Member Countries, of changes in numbers of farm holdings by size group and of the most recent classification of the absolute number of farm holdings by size groups.

Low-Income Farms in Italy

In Italy, net agricultural product per worker in agriculture averaged Lire 465,000 (approx. £332A) over the period 1959 to 1961. The net product per head for other occupations averaged Lire 808,000 (£576A). Farmers supplement their farm earnings by Lire 270,000 (£195A) per active agricultural worker, through off-farm employment. Thus there is a small advantage to other occupations in terms of net product. What this means in terms of net incomes is not clear from the report. It seems to be implied, without documentation, that after taxes, various contributions, and interest on capital employed are accounted for, workers in agriculture are at a marked disadvantage.

There is a very large number of small holdings and a very limited number of large ones. Farms of less than five hectares, or three-quarters of the total number of farms, cover scarcely a quarter of the agricultural land. Farms larger than 50 hectares are only a little more than one per cent of the total number but cover more than a third of the agricultural land. Some 49 per cent of properties supply only two per cent of the total taxable agricultural income. Regional differences are largely due to population pressure on natural resources, structure of holdings, and topography. Central and Southern Italy have low income groups because of low production and population pressure, respectively. Arable farming land is scarce with 75 per cent of farmland in the hills or mountains. Incomes in mountain areas are the lowest of all groups. Under-employment has been estimated to range from 34 per cent in Northern Italy to 45 per cent in Southern Italy, but is gradually falling as family members move to the city and farmers get part-time jobs. The 1961 census of Italian agriculture showed that 81 per cent of the total number of holdings are farmed by the operator and his family, and cover about half the agricultural area. About two-thirds of these farm operators are solely owner-operators and the others operate either exclusively with rented land or combine rented land with owned land. As economic progress gives more job opportunities, supplementary incomes are increasing and new techniques lower labour time on farms.

The Italian Government's main policy objective is to promote economic and social development of agriculture by better management, higher productivity, and better living conditions. Markets will be enlarged to include exports, and it is hoped to reduce the disparities between sectors of the economy and agriculture and between farmers.

Measures of structural reform, in support of this policy, include a land reform programme based on the Sila and Stralcio Laws of 1950. Under the Sila Law the Government has powers of acquisition concerning land belonging to persons who own more than 300 hectares of agricultural land, anywhere in Italy. The area in excess of this limit is taken over, provided

it can be improved. Under the Stralcio Law the percentage of land compulsorily acquired by the State depends upon total income received from the land; this percentage can vary between 15 and 95 per cent. The percentage is fixed on the basis of the total land value and the average value per hectare; land acquired increases with diminishing average value per hectare and increasing total value.

It was estimated that the areas in need of reform covered about eight million hectares, and within these regions some 800,000 hectares have been the object of reform schemes. The land taken over has been used either to create new holdings, or to enlarge existing small holdings. In most cases new holdings have been allocated to tenant farmers, sharecroppers, or hired workers already working on the land before it was taken over. More than four-fifths of the land has been used to set up new holdings. These reforms have mainly affected the South and the Land Reform District of Maremma Toseo-Laziale.

Additional action has been taken to enlarge small owner-operated farms. Laws to encourage this development and an increased proportion of owner operation on small farms provide for:

- (a) a reduction in mortgage registration duties and exemption during five years from agricultural income tax;
- (b) thirty-year loans by the Family Farmstead Fund and by Credit Institutes for the purchase of land sold freely by the proprietors, with the Government covering cost of interest up to 4.5 per cent; and
- (c) loans granted up to 46 per cent of the amount deemed necessary for improving and equipping small family holdings.

General programmes for the improvement of production conditions, as authorized by a basic law in 1933, have been concentrated mainly on Northern and Central Italy. The South and the Islands have benefited mainly from regional programmes. The general programmes consist principally of projects for irrigation, drainage, flood control and development of mountainous areas. Differential prices are applied only to wheat, to compensate producers in Southern Italy and the Islands for the less favourable conditions of production in these parts of the country.

The economic development of Southern Italy called for a financial effort and a structural overhaul on such a scale that the Italian Authorities found it necessary to set up a special organization—the Fund for Southern Italy—with its own financial resources. Under the laws of 1950, 1952 and 1957 the Fund was allotted Lire 2,400 Billion (£1,460 mill. A.) for a period of 15 years. The Fund was given the task of carrying out the “infrastructure” projects needed in the region, including those pertaining to agriculture, and of encouraging private enterprise to create new jobs and boost production. The difficulties in achieving dramatic effects with such programmes are illustrated by the concluding comments on this Fund.

“The programmes financed by the Fund for Southern Italy have had a marked effect on the economic development of Southern Italy and the Islands, and on the rise in the standards of living there. No data are available to show the precise effect of this on farm incomes, particularly those of small farmers, but there is no doubt that agriculture as a whole has profited both from a larger market for its produce, and from the creation of new jobs outside agriculture.

"A point worth noting is that the growth rate of net income produced in Southern Italy (at constant prices) was 2.9 per cent a year between 1951 and 1954, 4.5 per cent between 1955 and 1958, and 5.4 per cent between 1955 and 1961. During this period, incomes per head went up by 92 per cent (at current prices), but this percentage is less than the national average, which was 99 per cent. The figure of 92 per cent cannot give an accurate picture of the situation, as it is based on the "resident" population, which is slightly higher than the population actually working in the South because of the migration of workers to Northern Italy and abroad. If allowance is made for the strong migratory flow towards Northern Italy and abroad, it is clear that so far the only result of the development of Southern Italy has been that per capita incomes have grown at the same rate as the national average: the initial gap in per capita incomes as between the big regions seems hardly to have narrowed at all."⁶

Regional programmes, of a more limited nature, are also in progress in the mountainous districts and in the depressed areas of Northern and Central Italy.

Further aspects discussed, with reference to the low-income problems of Italian agriculture, include taxation policy, social measures, education and training programmes and the archaic, now repealed, provisions for compulsory employment of labour on large farms. An interesting aspect of improved training facilities for small producers is the creation of "Centres for technical-agricultural assistance". These centres provide for co-operation between smallholders for obtaining technical guidance. The State and local bodies contribute towards the cost of such schemes, but the farmers concerned have to meet an increasing share of the costs. Twenty-eight of these centres have been established and 40 more are envisaged.

This Chapter, and in this it is typical of the other Country chapters, does not attempt to analyse the extent to which the various measures in force help low-income farmers and contribute towards an effective solution of the problem.

Conclusion

Low Incomes in Agriculture—Problems and Policies concludes that there is a substantial low-income problem in O.E.C.D. agriculture. Not surprisingly, this is associated, above all, with the small size of farms and the attendant problems of slow rates of adoption of new techniques, ageing farmers, and so on. Other related factors are fragmentation, unfavourable natural conditions, and tenancy arrangements. Although farm population and farm numbers are falling, these adjustments are not necessarily reducing the proportion of low-income farmers. An explanation of this is that the most rapid fall in farm numbers is taking place in areas where there is a high demand for labour in non-agricultural employment, where agriculture is often relatively prosperous, rather than in backward areas. It is also doubtful whether regional income disparities are diminishing.

In relation to policies, towards a solution of the observed low-income problems, the main conclusions are:

- (1) Each country should attempt some definition of what constitutes a "viable farm". Such farms might be broadly described as being of a size and nature so that, with a reasonable level of management, they can provide at least a sufficient livelihood to a

⁶ *Op. cit.*, Paragraphs 51 and 52, p. 278.

full-time operator and his family, and allow scope for future improvements in line with generally rising standards of living in the community as a whole.

- (2) The main instrument of agricultural policy has consisted of price supports, generally given without discrimination between different groups of farms. This has given little benefit to low-income farmers, has stimulated output and contributed to surplus problems, and has diverted interest and money from those measures which would have given more lasting results. Usually the alternative of differential subsidies for low-income farmers may also merely perpetuate the basic problems.
- (3) Policies should be selectively aimed at low-income farmers and should attempt to create a self-supporting agricultural sector based on farms which have a long-term viability. This necessitates a continuing and substantial transfer of agricultural manpower to other sectors. The ability of the other sectors to absorb this manpower is an essential factor and should be assisted by appropriate policies.

It is considered that the report presents a valuable summary of realistic approaches towards the solution of low-income problems in agriculture, together with a great deal of factual detail for each of the O.E.C.D. countries. It squarely confronts the major error of past policies (the subsidy approach) and presents a range of alternative measures aimed at promoting, in the long-term, a more satisfactory agricultural structure. One major shortcoming of the report may be that it is not sufficiently analytical in relation to the theory and practice of the measures that are accepted. Also, and inevitably, there is little convincing evidence on the success of policies adopted in the various countries.

It has already been implied that regional development programmes should have received more critical attention in the report. The basic conflict between (i) taking the nation as the planning unit and working with the principle of comparative advantage, and (ii) the regional development approach, which to some extent attempts to work against the principle of comparative advantage, has recently been emphasised by Milliman's⁷ discussion of Friedman's paper⁸ to the 1963 Annual Meeting of the American Farm Economics Association. When public expenditure is massive, as in the case of the Fund for Southern Italy, one wonders about the magnitude of the hidden national costs associated with neglecting the possibility of using some of the money in other areas. To the credit of the report, a warning on this question is given in paragraphs 127 and 128 of the General Part; our quibble is that this warning is not sufficiently emphatic. Moreover, experiences with both massively assisted programmes and community self-help programmes do not yet seem to have illustrated that the regional development approach has been outstandingly effective in overcoming low-income problems.

⁷ J. W. Milliman, "Discussion: Regional Planning in Post-Industrial Society: Farm Policy Considerations", *Journal of Farm Economics*, Vol. 45, No. 5 (December, 1963), pp. 1079-1082.

⁸ John Friedman, "Regional Planning in Post-Industrial Society: Farm Policy Considerations", *Journal of Farm Economics*, Vol. 45, No. 5 (December, 1963), pp. 1073-1079.

The arguments of Hendrix,⁹ Shepherd,¹⁰ and others suggest that the report could here given more emphasis to the role of efforts to improve the factor markets between the farm and non-farm economies. For example, attention could have been given to the possible effect of specific programmes aimed at reducing the number of beginning farmers in low-income areas by improving school-leavers' knowledge of alternative job opportunities.¹¹ Similarly, steps such as the U.S. Manpower Development and Training Act of 1962¹²⁻¹³ may have a more fundamental impact, and be less expensive than the more enthusiastically presented regional development programmes.

Some surprising aspects of the report are: (a) a failure to relate the question of the long-term viability of farms to research on economies of scale in the agriculture of low-income regions; and (b) the absence of suggestions on research effort required in relation to low-income problems on farms.

As a final comment, the report has obvious implications for policy issues in the Australian dairy industry. The attempt of the 1959 Dairy Industry Committee of Enquiry¹⁴ to apply similar principles has been notably unsuccessful. It is clear that some European advisers on agricultural policy have been much more successful in deciding on a position that moves as far as possible towards an effective solution of low-income problems and is at the same time politically realistic.

⁹ W. E. Hendrix, "Income Improvement Prospects in Low-Income Areas", *Journal of Farm Economics*, Vol. 41, No. 5 (December, 1959), pp. 1065-1075.

¹⁰ Geoffrey S. Shepherd, *Farm Policy: New Directions* (Ames: Iowa State University Press, 1964).

¹¹ Geoffrey S. Shepherd, *op. cit.*

¹² *Low-Incomes in Agriculture Problems and Policies*, *op. cit.*, p. 48, p. 496.

¹³ Frank T. Bachmura, "The Manpower Development and Training Act of 1962—Its Significance for Rural Areas", *Journal of Farm Economics*, Vol. 45, No. 1 (February, 1963), pp. 61-72.

¹⁴ *Report of the Dairy Industry Committee of Enquiry*, Commonwealth Government Printer, Canberra, August, 1960.