
Policies Affecting or Facilitating Resource Adjustment in the European Union

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Aim

- To examine the role policies can play in assisting the process of adjustment by the farming industry following the reform of agricultural policy
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Sections

- Introduction
 - The adjustment process and the farm level
 - Policies to assist agricultural adjustment in the EU
 - assistance within EU agricultural and rural policy
 - assistance within national agricultural and other policies affecting structural change in agriculture
 - Discussion / conclusions
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Introduction 1

- Structural change has taken place and more is inevitable, but EU structure is diverse
 - Pressures for change can be steady or as shocks, of which policy reform is one type
 - Policy has often intervened to protect farmers against change, with less effort to assist it
 - Multifunctional nature of EU agriculture prevents a simple productivist approach (environmental, social, cultural functions)
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Introduction 2

- Paper reviews experience of past and current attempts to assist change in the EU
 - Draws from evaluation of the Rural Development Programmes
 - Conflicting aims exist within policy for adjustment
 - Protection of numbers and family-operation
 - Creation of competitive farming sector capable of generating “fair standard of living”
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Introduction 3 – (Daucé)

- “...structural policy in agriculture has always been split between two contradictory objectives; on the one hand policy aims to bring about the modernisation of agricultural holdings through investment subsidies, hence the substitution of labour by capital, but on the other hand, and sometimes contemporaneously, measures are taken to prevent the emergence of strong demographic imbalances in rural areas, incentives are put in place to encourage the installation of young farmers” (translation by Cahill).
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Adjustment process at the farm level 1

- Adjustment takes many forms – marginal production decisions, more major expansion, diversification, entry/exit etc.
 - Nature of household-firm operation influences response (pluriactive, combines production and consumption)
 - Response to market-oriented policy reform likely to impact more on larger mono-active producers rather than on pluriactive ones
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Adjustment process at the farm level 2

- Adjustment typically involves greater involvement with non-farm activities
 - Response to signals influenced by stage of life-cycle, family value sets etc.
 - Inter-generational transfer of assets often trigger major adjustment
 - External environment important to adjustment (e.g. availability of off-farm income and job opportunities)
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Adjustment process at the farm level 3

- Agricultural adjustment not likely to have major effect on rural economy (more affected by prosperity of other industries)
 - However, adjustment more likely to affect landscape, biodiversity, social fabric and culture in rural areas
 - In future, agricultural adjustment policies are likely to be seen within the context of rural development policy
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EU Policies to assist adjustment – why?

- Basic rationale?
 - Market failure, especially friction arising from asset fixity?
 - Equity – pressures particularly on small, low income producers?
 - Compensation for government failure – misleading signals on permanence of support?
 - Political ploy to facilitate reform in high-cost commodity support or elsewhere?
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EU Policies to assist adjustment – cost?

- Cost difficult to establish because
 - EU-MS shared funding at various rates
 - Overlap with EU regional policy
 - Some national schemes exist
 - Non-agricultural policies can assist adjustment (e.g. on capital taxation)
 - Nevertheless, a very minor part of spending on overall support
 - Fraction of the thin “Second Pillar” of the CAP, itself only about 1/5 of EU agricultural budget
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EU policies to assist adjustment – major historical mileposts

Agricultural policy route

- Structural change acknowledged from early stage (Mansholt Plan of 1968)
 - Structural Directives of 1972 and 1975
 - Farm modernisation, early retirement, socio-economic advice, aid in Less Favoured Areas
 - Compensation direct payments as part of the 1992 MacSharry CAP reforms, with “accompanying measures”
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EU policies to assist adjustment – major historical mileposts

Rural development route

- Before 1988 regional development policy was largely separate from agriculture
- 1988 turning point
 - *Future of Rural Society*
 - *Reform of the Structural Funds*
 - *Objective 1 areas (many rural)*
 - *Objective 5a – to assist agricultural adapt*
 - *Objective 5b – rural development outside Obj 1.*



EU policy – Agenda 2000 and the present situation

- Agenda 2000 combined production-related support (including direct payments) with a “second pillar” of Rural Development
 - Rural Development Regulation (1257/99)
 - Brought together previous CAP “accompanying measures” and some newer ones
 - Implemented through multi-annual national Rural Development Plans / Programmes
 - Mainly concerned with adapting incomes and employment of farm families, and the environment
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Chapters of RDR 1257/1999

- On-farm investment, including in diversified projects
- Improving marketing and processing
- On-farm agri-environment schemes
- Organic conversion
- Support to hill farming
- Woodland creation and management
- Assistance to retirement and to young entrants
- Community development

Comments on the RDR

- RDPs are agri-centric but this may be useful in assisting adjustment to agricultural policy reform
 - In many countries, agri-environment and LFA (hill farming) payments dominate spending (Wales 85%) (are these developmental and/or assistance to adjustment?)
 - Existing schemes made to fit – poor design and little appraisal
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Comments on the RDR

- Some forms of RDP payments are compensations for income forgone, and should be scaled back if incomes decline (?)
 - Rationale for LFA payments now changed from social/environmental to compensation for handicap for being in disadvantaged area
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Performance - Early retirement and setting up new entrants

- Mixed usage across MS
 - In UK not used - appraisal suggested high deadweight and low additionality for retirement, and ineffective aid for new entrants
 - France used – quite high uptake of retirement aid. But net effect is to accelerate take over, not alter the net numbers
 - Ireland – uncertain impact
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Performance - Investment aid

- Covers diversification, modernisation, marketing, afforestation etc
 - EU-level evaluation of past schemes found them of greatest benefit to countries with small farm sizes
 - Processing and marketing grants – mainly benefit the food sector
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Performance - Training aid

- Traditionally has offered training in skills appropriate to the farm activity – not for employment elsewhere
 - Surprising lack of evidence so far on the results of EU training expenditure
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Overall indication of performance

- Evaluation evidence not yet very strong – will improve when programmes are more established
 - Structural assistance received by only a small proportion of farm operators – most adjust without
 - Those that receive support generally benefit and spending achieves value-for-money
 - Administrative burden high in relation to the number of beneficiaries
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National policies for agricultural restructuring 1

Allowed under EU state aid rules (relate to the extent to which markets are distorted)

Examples:

- ❑ Pig Industry Restructuring Scheme (UK)
 - ❑ Aids to tourist facilities (Welsh TB)
 - Agricultural-specific policy under national control
 - ❑ Land transfer regulations
 - ❑ Advisory systems and research on diversification, environmental, organics etc..
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National policies for agricultural restructuring 2

- General policies specific to agricultural restructuring (many are two-edged)
 - Taxation e.g. special treatment for agricultural capital transfer and capital gains
 - *N.b. some special tax treatments may hinder restructuring – income, current capital taxes*
 - Planning regulations (rural businesses)
 - Policy for infrastructure e.g. IT facilities in rural areas (special treatment of farm businesses)
 - Special social benefits (pensions) for farmers
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Land transfers - examples

- *France* – SAFERs aim to improve farm structures through buying and selling land
 - *Germany* - statutory control over any change of ownership of leasing to prevent undue fragmentation or aggregation, or to non-farmers
 - *Norway* – pre-emptive state rights over farm land, prevents subdivision, controls who can acquire land (outside the family)
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Discussion – adjustment policy in EU 1

- Typical response to shocks requiring adjustment has been income support
 - Very little in agricultural policy spending to facilitate adjustment to longer-term pressure
 - Most farm-level adjustments are unassisted
 - Rural development spending is agri-centric and little has been spent (outside special regions) on creating job/income opportunities
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Discussion – adjustment policy in EU 2

- Non-agricultural policies may be influential (research?)
 - (Non-)Entry decisions crucial for labour adjustment – largely unassisted
 - Exit/entry schemes not appropriate or mainly only displace in time
 - Structural policies most active in countries with poorest structure – line of causality?
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Discussion – adjustment policy in EU 3

- Present support policies hinder adjustment – land prices a major issue
 - Existing adjustment assistance/land control is often trying to counteract the effects of other interventions
 - A reduction in “mainstream” policies should make adjustment more straightforward and create other opportunities for people currently in farming
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