



Promoting structural adjustment in agriculture: The economics of New Entrant Schemes for farmers



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ABSTRACT

We examine the efficacy of incentives for new entrants to farming as an alternative to early retirement schemes for farmers. We briefly review previous studies on the effectiveness of Farmer Early Retirement Schemes in promoting structural adjustment in agriculture and conclude that the economic case for these schemes seems weak. We then employ a dynamic farm optimisation model, incorporating a realistic specification of farmer decision-making, on an original Northern Irish dataset to analyse *ex ante* the possible impacts of New Entrant Schemes. We find a more positive potential impact from these schemes, particularly the option of an interest rate subsidy on farm development loans. This is attributed to the dynamic effects of the farm investments associated with such schemes, a likely reflection of the long-term effects of differences in age related lifecycle goals. Younger farmers have a longer planning horizon and tend to invest more heavily in business growth than comparable older age groups.

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Introduction

Public support for re-structuring in agriculture typically follows two paths. Firstly, Farmer Early Retirement Schemes provide financial incentives to older farmers to retire prematurely. Secondly, New Entrant Schemes provide assistance to help establish a young farmer as head of an agricultural holding through either an interest subsidy on a farm development loan or as a capital grant. Both types of scheme have received European Union (EU) support for many years via the rural development strand of the Common Agricultural Policy (CAP) and feature in the current framework regulations. Under Article 22 of Council Regulation 1698/2005 on support for rural development, 24 member states included measure 112 activities on the setting up of young farmers within their national Rural Development Plans for 2007–2013 and 16 member states included measure 113 activities on early retirement. Although some members states subsequently suspended one or both of these measures, planned financial support to setting up young farmers accounted for almost 9% and early retirement 8% of Axis 1 spending respectively at EU-27 level in the original Rural Development Plans (European Commission, 2011a). Commission proposals for the CAP post-2013 (European Commission, 2011b) do not include provisions for farmer early retirement but do have new and enhanced support to help establish new entrants. Is the

proposed focus on New Entrant Schemes likely to be more effective and thus offer a better return on public funds? In this article we aim to throw some light on this question. We begin by briefly reviewing previously published work on the effectiveness of Early Retirement Schemes. We then analyse the possible impacts of New Entrant Schemes using an original dataset and draw some conclusions on which of these two approaches is likely to be the more effective in promoting structural adjustment in agriculture.

Farmer Early Retirement Schemes

There is limited evidence on the impact of early retirement schemes within Europe. The schemes that have operated seem to have been used to achieve both social and structural objectives. Scheme designs were heavily influenced by national objectives and the nature of agriculture in each country. Rigorous evaluations were not carried out and so it was difficult to draw conclusions about value for money. Naylor (1982) evaluated retirement policy introduced in the mid 1960s in French agriculture. A retirement grant (*indemnité viagère de départ-complément de retraite*) supplemented the state old age pension and was available to full-time farmers aged 65 and over; holdings released could be used for the installation of farmers under 45 years of age. He concluded, however, that the retirement grant appeared to facilitate rather than increase the rate of movement of elderly farmers out of agriculture; the impact on structural adjustment in French agriculture had been limited. Allaire and Dauce (1999) and Brangeon et al.

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(1996) examined experiences with the French Early Retirement Scheme (1992–1994) and highlighted the difficulties inherent in achieving multiple policy objectives. Dauce et al. (1999) concluded that the main impact of the French scheme (1995–1997) was to encourage farmers to bring forward their retirement decision, following which there was a period when the number retiring was below trend. Murphy (1997) found similar results for a scheme introduced in the Republic of Ireland in 2000 and also that the larger farms and those located in traditionally more prosperous farming regions were over-represented. Bika (2007) reviewed national evaluation reports of European Farmer Early Retirement Schemes to examine the causal relationships between early retirement policy instruments and structural and social outcomes. He concluded that policies had been more successful in ensuring the continuation of family farming and population stabilisation than in enhancing competitiveness and structural adjustment.

One of the most detailed economic evaluations of a Farmer Early Retirement Scheme in a European context was undertaken by Davis et al. (2009). They estimated the structural effects, costs and potential efficiency gains that might arise from the introduction of an early retirement scheme for farmers in that region. They postulated that benefits could arise if a scheme could incentivise and facilitate the transfer of resources from older farmers to younger farmers who were expanding their businesses. Thus, if age or business size is correlated with farm performance, potential benefits may accrue from a reduction in the number of (older) farmers and some increase in the average size of the remaining farm businesses. Their analysis of farm business data, however, did not reveal any significant differences in farmer performance related to age. Thus simply replacing older with younger farmers was unlikely to lead to significant improvements in performance. The authors did identify benefits from farm expansion in the form of substantially higher levels of output and income per hectare associated with increases in farm size, most notably when moving from the smallest beef or dairy farms to medium size units of either type. However, the EU Early Retirement regulations did not require those taking over released land to expand the holding. Moreover their survey data showed that farm enlargement in practice was unlikely as the majority of respondents who said they would be willing to participate in an early retirement scheme intended to transfer their holdings to a son or daughter, who would be setting-up independently in farming for the first time. In the minority of cases where farm expansion was likely the potential annual income benefits for the expanding unit could justify payments of only one-third of the statutory maximum. In addition, deadweight payments were estimated to account for about 23% of expenditure since the majority of farmers who were interested in participating in a scheme were contemplating retirement anyway in the near future. The authors concluded that there was at best only a weak economic case for the introduction of a Farmer Early Retirement Scheme to Northern Ireland. They added, however, that “new blood” schemes merited separate consideration.

New entrants to farming schemes

The potential merits of such assistance lies in an aspiration to bring into the industry well qualified younger people who can provide a firmer foundation for the development of a dynamic and competitive sector in the future.

The literature on the efficacy of schemes to encourage “new blood” into active farming is relatively thin. Ingram and Kirwan (2011) examined the possible roles that farm joint ventures such as partnerships, share farming and contract farming might play in facilitating those wishing to enter or leave farming and whether

those might be supported by policy. They employed qualitative data derived from interviews with the participants, deliverers and stakeholders involved in the matchmaking element of the Fresh Start initiative in Cornwall, UK (2005–2008). They found deep rooted reluctance amongst participants in the initiative to enter formal long term joint ventures due to differing motivations, expectations, and concerns about their respective responsibilities in the working relationship and about the validity of the legal framework. Only where a relationship had already been informally established was there a commitment to formalise a joint venture agreement. They concluded that future emphasis in policy should be on helping to facilitate and formalise existing partnerships, rather than trying artificially to orchestrate matches where the parties do not know each other. Mailfert (2006) examined the ways in which personal networks of new farmers from farm and non-farm backgrounds provided access to key farm start-up resources in France. She identified the importance of both strong and weak ties in providing resource access for the two groups. For those from non-farm backgrounds establishing weak ties with the local community in the early stages of farm set-ups was particularly important in obtaining informational and material supports.

In their *ex ante* evaluation of a Farmer Early Retirement Scheme Davis et al. (*op. cit.*) found no statistically significant differences in farm financial performance between younger and older farmers in their dataset. However, they reasoned that this static comparison may ignore potential dynamic effects such as the possibility that young farmers are more likely to be making investments in farm development that may reduce profitability in the short term but may well be necessary for business viability in the longer-term. Potter and Lobley (1996) identified the predominance of lifecycle and succession effects in explaining farmer decision making concerning land use change and farm development. They concluded that farmers who embarked on development were most likely to be younger operators who had recently succeeded to or inherited their farm businesses. They refer to this as a “successor effect” occurring where young managers implement changes to the way the farm is managed and embark on expansion and restructuring in pursuit of improved farm income. Francksen et al. (2012) investigated the determinants of growth of milk production in German dairy farms. They found that younger farmers were significantly more likely to expand production than older counterparts. They speculated that this might be explained through a higher propensity to assume risk.

Methodology

To establish the most cost effective means of promoting business development, analysis was carried out using a dynamic farm-level optimisation framework as described in Wallace and Moss (2002). The effect on farm business performance of a £15,000 capital grant was compared with an interest rate subsidy made available on loans of between £10,000 and £50,000 (scaled to suit different farm sizes and capital repayment capabilities) and repayable over 5 years. In all cases the value of the subsidy did not exceed £15,000 – the relevant ceiling for support at the time of the analysis.

For data reasons the farm modelling exercise was limited to dairy and beef/sheep farm types, as follows:

- SDAIRY – Small dairy farm model (8–39.9 ESU).
- MDAIRY – Medium scale dairy farm model (40–99.9 ESU).
- LDAIRY – Large dairy farm model (100–999.9 ESU).
- VSBEF – Very small beef and sheep farm model (4–7.9 ESU).
- SBEEF – Small beef and sheep farm model (8–39.9 ESU).

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