nesc
National Economic and Social Council
An Chomhairle Náisiúnta Eacnamíoch agus Sóisialach

Farm Incomes

Analysis and Policy

No. 65
July, 1982

NATIONAL ECONOMIC AND SOCIAL COUNCIL
CONSTITUTION AND TERMS OF REFERENCE

1. The main task of the National Economic and Social Council shall be to provide a forum for discussion of the principles relating to the efficient development of the national economy and the achievement of social justice, and to advise the Government, through the Taoiseach on their application. The Council shall have regard, *inter alia*, to:

(i) the realisation of the highest possible levels of employment at adequate reward
(ii) the attainment of the highest sustainable rate of economic growth,
(iii) the fair and equitable distribution of the income and wealth of the nation,
(iv) reasonable price stability and long-term equilibrium in the balance of payments,
(v) the balanced development of all regions in the country, and
(vi) the social implications of economic growth, including the need to protect the environment.

2. The Council may consider such matters either on its own initiative or at the request of the Government.

3. Members of the Government shall be entitled to attend the Council's meetings. The Council may at any time present its views to the Government, on matters within its terms of reference. Any reports which the Council may produce shall be submitted to the Government and, together with any comments which the Government may then make thereon, shall be laid before each House of the Oireachtas and published.

4. The membership of the Council shall comprise a Chairman appointed by the Government in consultation with the interests represented on the Council,

Ten persons nominated by agricultural organisations,
Ten persons nominated by the Confederation of Irish Industry and the Irish Employers' Confederation,
Ten persons nominated by the Irish Congress of Trade Unions,
Ten other persons appointed by the Government, and
Six persons representing Government Departments comprising one representative each from the Departments of Finance, Agriculture, Industry, Commerce and Tourism, Labour and Environment and one person representing the Departments of Health and Social Welfare.

Any other Government Department shall have the right of audience at Council meetings if warranted by the Council's agenda, subject to the right of the Chairman to regulate the numbers attending.

5. The term of office of members shall be for three years renewable. Casual vacancies shall be filled by the Government or by the nominating body as appropriate. Members filling casual vacancies may hold office until the expiry of the other members' current term of office and their membership shall then be renewable on the same basis as that of other members.

6. The Council shall have its own Secretariat subject to the approval of the Taoiseach in regard to numbers, remuneration and conditions of service.

7. The Council shall regulate its own procedure.

NATIONAL ECONOMIC AND SOCIAL COUNCIL

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by
P.G. Cox, J Higgins and B Kearney

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INTRODUCTION

1. In the latter half of the 1970s the agricultural sector was characterised by two major developments, a rapid rise in real income per capita over the period 1974-78 and a steep decline during 1979 and 1980.

2. Concern for the adverse income situation of farmers and the impact of these developments on the economy in general led the Council to commission a study of farm incomes with the following terms of reference:

> To evaluate and comment, in the national and EEC context, on the current trends in farm incomes and to identify what policies should be pursued in order that appropriate levels of farm incomes may be achieved and subsequently maintained.

Brendan Kearney of An Foras Talúntais was commissioned to direct the study. The report was written by B Kearney, P.G. Cox and J Higgins of An Foras Talúntais.

3. The consultants put forward two main recommendations as a means of raising farm incomes. They are (i) a devaluation of the Irish green pound without an equivalent devaluation in the general exchange rate for the Irish pound, (ii) a general scheme of headage payments on all grazing livestock in Ireland.

4. The Council's comments are arranged into seven sections as follows:

(i) the first section sets the background, dealing with the importance of agriculture to the Irish economy and the extent of the present problem in agriculture; it also sets the problem in a European context;

(ii) the second section attempts to ascertain whether the decline in farm incomes is cyclical or long term in nature;

(iii) the third section deals with the issue of farm borrowing;

(iv) the issue of an appropriate level of farm income is dealt with in the fourth section;

(v) the consultants' recommendations are critically appraised in section five including an assessment of the budgetary implications;

(vi) the sixth section discusses agricultural policy in the context of social equity and efficiency criteria;
(vii) the seventh section presents a summary of the Council's conclusions and recommendations.

SECTION 1

BACKGROUND

Importance of Agriculture to the Irish Economy

5. The agricultural share of GDP, employment and exports has declined over time but it remains a major part of the Irish economy. With the exception of Greece, agriculture is relatively more important in Ireland than in other EEC countries.

6. In addition to providing a source of livelihood for one fifth of the population the importance of agriculture derives from its role as purchaser from, and supplier to, other sectors of the economy. It purchases raw materials, capital inputs, consumer goods and services from the manufacturing and service sectors and is the primary supplier of inputs to the food processing sector. It is also a substantial net exporter. It has been estimated by the consultants that every additional £1m of agricultural output contributes approximately £0.7m to net exports.[1]

7. Any decline in the growth rate of agriculture, therefore, has an adverse impact on other sectors and on the economy in general. The volume of gross output in agriculture actually fell between 1978 and 1981 thus contributing significantly to the marked slowdown in the rate of growth of GNP over this period. The agricultural sector and the problems therein must therefore be viewed not only in a sectoral context but in the wider framework of the national economy.

8. Over the period 1970-78 the volume of gross agricultural output increased by almost four per cent per annum, a high figure by historical standards.[2] While acknowledging that this growth rate covers the period of EEC accession and the transition to EEC common prices and thus overstates the underlying growth trend, it does indicate the potential contribution of Irish agriculture to overall growth.

Extent of Present Problem in Agriculture

9. The trend in both nominal and real income per capita in agriculture

[1]Net exports is the difference between the total exports resulting from each additional £1m of agricultural output and the imports required to produce that additional output.

[2]The equivalent growth rate during the 1960s was less than three per cent.

was extremely variable over the 1970s (Table 1). Between 1971 and 1981 nominal per capita income from self employment in agriculture increased five fold and by 20% in real terms. Within this period a number of sub-periods can be identified:

1971-73 – increase of 57% in real terms
1973-74 – decline of 23% in real terms
1974-78 – increase of 63% in real terms
1978-80 – decline of 37% in real terms

An important feature is the dramatic reversal in 1979 and 1980 of the very strong upward trend during 1974-78.

10. The measure of income used in the previous paragraph (i.e. income from self-employment in agriculture) excludes interest on borrowings and building depreciation. Family farm income as measured in the Farm Management Survey includes these costs. Over the period 1971-81 nominal family farm income per family labour unit increased fourfold but fell by 2.3 per cent in real terms.[3] Between 1974 and 1978 real income measured in this manner increased by 75% while over the period 1978-80 it declined by 48%.[4]

11. The consultants also show that when family farm income per family labour unit is expressed as a ratio of average industrial earnings, the ratio remained relatively stable throughout the 1960s and stood at 0.75 in 1971. By 1981 this ratio had fallen to 0.55. The movements in this ratio are similar to those for real income per capita in agriculture found in the previous paragraphs. Between 1974 and 1978 the ratio increased from 0.71 to 1.04 but had fallen back to 0.53 by 1980. While an examination of movements in the ratio is useful, the Council expresses considerable reservation in later paragraphs with its use as an indicator of relative welfare levels.

12. The reason for these divergent trends are to be found in differential price/cost movements and volume of output movements (which are not unrelated) over the two periods. Over the period 1974-78, agricultural output prices in Ireland more than doubled while input costs increased by 71%. This, combined with a 12% increase in the volume of net output resulted in an almost three fold increase in per capita nominal income and a 63% increase in real terms. In 1979 and 1980 output prices increased in total by only 3% (they actually fell in 1980) while input

[3]See Table 3.6 of consultant's report.

[4]When discussing income in agriculture throughout the remainder of the report income from self-employment is the measure used.

Table 1

Agricultural Indices, 1970-81

1969/70/71 = 100

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Output Prices	106	129	168	171	219	275	337	381	404	393	467
% Change	6.0	21.7	30.2	1.8	28.1	25.6	22.5	13.0	6.0	-2.9	18.8
Input Costs	107	111	139	194	226	262	318	332	373	427	489
% Change	7.0	3.7	25.2	39.6	16.5	15.9	21.4	4.4	12.3	14.5	14.8
Price/Cost Ratio	99	116	121	88	97	105	106	115	108	92	96
% Change	1.0	17.2	4.3	-27.3	10.2	8.2	0.9	8.5	-6.1	-14.8	3.3
Volume-Gross	105	111	111	113	120	115	126	134	133	133	130
% Change	5.0	5.7	0	1.8	6.2	-4.2	9.6	6.3	-0.7	0	-2.3
Volume-Net	104	110	109	115	128	115	126	129	116	125	119
% Change	4.0	5.8	-0.9	5.5	11.3	-10.1	9.6	2.4	-10.1	7.7	-5.1
Farm Materials-Volume					100	115.0	124.5	147.5	175.2	153.2	159.6
% Change						15.0	8.3	18.5	18.8	-12.5	4.2
Income from self-employment (£m) (a)	200	284	363	330	477	536	744	835	734	672	792
Income from self-employment per capita (£)	847	1229	1613	1493	2178	2528	3577	4113	3764	3537	4213
% Change	14.2	45.1	31.2	-7.4	45.9	16.1	41.5	15.0	-8.4	-6.0	19.1
Real income per capita (b)	104	140	163	126	157	151	193	205	162	129	125
% Change	4.0	34.6	16.4	-22.7	24.6	-3.8	27.8	6.2	-21.0	-20.4	-3.1

(a) As defined by the CSO (see paragraph 10 of text).
(b) Using the consumer price index as deflator.
Source: Table 2.1 of consultant's report, Annual Review of the situation in Agriculture 1981, Economic Unit, Department of Agriculture, December 1981.

costs increased by 29%. This adverse movement in the price/cost ratio combined with a 3% decline in the volume of net output resulted in the sharp decline in farm incomes in 1979 and 1980.

13. The decline in nominal income was halted in 1981 and an increase of 19% was recorded. This increase was entirely due to an improvement in the price/cost ratio since the volume of both gross and net output fell despite an increase in the volume of farm materials. The increase, however, was insufficient to prevent a further fall in real per capita income.

European Comparison

14. Between "1971"[5] and 1980 real income per head in agriculture increased by 6% on average in the EEC member states (Table 2), by 13% in Ireland and by 8% in France, while Germany, Denmark, Netherlands and the UK all experienced a decline. The decline in income between 1978 and 1980 was a general phenomenon throughout the EEC.

Table 2

Real Income[1] Per Head in Agriculture in EEC Countries, 1971-80

1970/71/72 = 100

	"1971"	1972	1973	1974	1975	1976	1977	1978	1979	1980
Germany	100	107	113	92	104	107	102	102	89	80
France	100	115	132	122	112	112	112	117	122	108
Netherlands	100	104	112	94	102	110	104	104	96	92
UK	100	103	128	113	111	121	111	106	101	92
Denmark	100	111	124	114	100	105	121	126	114	92
Ireland	100	115	130	115	136	136	165	172	139	113
EEC – 9	100	108	124	112	114	116	115	117	115	106

[1]The definition of income used in this table (real net value added at factor cost) is slightly different to that used in Table 1.
Source: Figure 3 of Consultant's report.

However, the decline in Ireland was steeper than in other member States. Real income per head in agriculture declined by 34% in these two years in Ireland compared to a decline of 27% in Denmark, the country with the next highest decline.

[5]Average of 1970/71/72.

SECTION 2

A CYCLICAL OR LONG-TERM PROBLEM?

15. In order to ascertain whether the decline in farm incomes experienced in 1979 and 1980 is a cyclical phenomenon or is likely to persist, it is necessary to examine in more detail the reasons for the movements in the underlying determinants of farm incomes.

Price/Cost Ratio

16. Over the period 1971-78 the price/cost ratio moved in the farmer's favour with the exception of a substantial adverse movement in 1974. This favourable movement was due to substantial increases in agricultural output prices which outweighed the relatively large increases in domestic costs. In 1979 and 1980 the rate of increase in output prices slowed down (output prices actually fell in 1980) but was not accompanied by a slowdown in the rate of cost increase, thus resulting in a price/cost squeeze.

17. Output price increases over the period 1974-78 resulted from:

(i) periodic devaluations of the Irish Green Pound,[6] consequent upon the depreciation of the market exchange rate against the 'snake' currencies;

(ii) the transitional adjustment of Irish prices to EEC common prices which occurred gradually over the period 1973 to 1978;

(iii) the annual increases in common EEC prices.

18. Irish farm prices had adjusted fully to EEC common prices by the end of 1978 while the increase in common prices has now become seriously constrained by budgetary pressure in the Community. With regard to (i), the situation changed following Ireland's entry to the EMS. Prior to this the Irish pound was equivalent to the pound sterling and therefore depreciated in line with sterling against the 'snake' currencies during the mid-1970s. This depreciation led to a devaluation of the Irish and British green pounds resulting in agricultural output price increases in national currency terms above the actual increases agreed by the EEC Council of Ministers. In a recent European Commission document it was estimated that during the period 1974 to 1981 56% of the increase in common prices in national currency terms in Ireland was attributable to devaluation of the Irish green pound and 15% was due to the transitional adjustment.[7]

[6]For further discussion on green pound arrangements see Appendix II.

[7]*Differential Rates of Inflation and the Common Agricultural Policy*, Commission of the European Communities, COM (82) 98 final.

19. Following the break in the link with sterling and Ireland's entry into the EMS, the Irish pound remained relatively stable against the EMS currencies while sterling appreciated significantly against the Irish pound, a factor which, given the close trading relationship between Ireland and the UK, imparted an inflationary trend in Ireland. Despite being outside the EMS, sterling continued to be included in calculating the value of the ECU.[8]

20. What is important to note, however, is that the appreciation of sterling against the Irish pound is not reflected to the same extent in the movement of the ECU against the Irish pound. This is because of the much higher weighting of sterling in Irish trade – approximately 50%, as against a sterling weighting in the ECU of approximately 16%.

21. Thus, while the depreciation of the Irish pound against sterling since 1979 contributed to Ireland's high inflation rate it did not afford scope for large devaluations of the Irish green pound because of sterling's relatively low weighting in the ECU. In addition, the appreciation of sterling *vis-a-vis* the Irish pound has not led to a corresponding appreciation in the value of agricultural and agricultural based output to the UK due to the operation of MCAs (see Appendix II for an explanation of the operation of MCAs).

Output Growth

22. Price/cost movements are not the sole determinant of farm incomes; the growth in the volume of output, which is undoubtedly influenced by price/cost changes, also needs to be considered. Over the period 1974-78 the volume of net output grew at an annual average rate of 2.9% while net output actually declined over the period 1978-80 thus contributing further to the income decline.

23. One final factor which influences the level of farm incomes is the volume of farm materials required to produce a given volume of output.[9] In this regard, changes from one type of enterprise to another or measures to promote disease eradication may affect the relationship between farm materials and output. Furthermore, a comparison of the growth in farm materials and output in any particular year may be misleading, since, for example, weather conditions may have been unfavourable in that particular year or fertiliser applied in one year may

[8]The appreciation of sterling resulted in a revaluation of the ECU against the majority of other currencies including the Irish pound (this is equivalent to a devaluation of the Irish pound relative to the ECU). This, in addition to the devaluation of the Italian lira, resulted in a 3.8 per cent devaluation of the Irish green pound in 1981.

[9]Farm materials is defined to include feeding stuffs, fertilisers (including lime) and seeds.

not give returns until the following year. Notwithstanding these qualifications, the volume of net output declined over the period 1975-81 while the volume of farm materials increased substantially (Table 1). The Council does not have available to it a satisfactory explanation for this relationship and recommends that a study be undertaken which would examine the relationship between the volume of farm materials and output.[10]

24. In summary, the dramatic decline in farm incomes in 1979 and 1980 was caused by the adverse movement in the price/cost ratio, a decline in the volume of net output and a perverse relationship between the volume of farm materials and the volume of output in 1979, the latter being partially reversed in 1980.

25. The previous downturn in agricultural incomes in 1974 was due to a substantial drop in cattle prices combined with a 40% increase in input costs. Subsequent to this downturn the price/cost ratio resumed a favourable trend.

26. The 1978-80 downturn is different to the 1974 situation in a number of important respects. Firstly, developments on the output side are contributing to the income decline whereas in 1974 the volume of net output increased by 5.5%. Secondly, although the price/cost ratio moved unfavourably in both downturns the reasons were different. In the present situation the slowdown in output price increases is due to budgetary pressures within the Community. In addition the commitment to exchange rates stability within the EMS limits the scope for Green Pound devaluations.

27. The present downturn in agricultural incomes is therefore potentially of a more long-term nature than the 1974 downturn. A return to the income levels obtaining in agriculture in the mid-1970s would require a resumption of the output growth rate experienced over the 1974-78 period which in turn would require an improvement in the price/ratio. In addition, a return to a more favourable relationship between the volume of farm materials and the volume of output would be required.

[10] It is understood that An Foras Talúntais are presently undertaking a study in this area.

SECTION 3

FARM BORROWING

28. The issue of farm borrowing and repayments thereon is separate from, though related to, the farm income situation. It is related to the latter to the extent that the substantial decline in farm incomes in 1979 and 1980 has made it difficult or even impossible for some farmers to service their borrowings.

29. The consultants estimate that about 70% of full-time farmers in Ireland had no interest payments in 1980 while 13.5% had interest payments of £1,000 or more.[11] The consultants also estimate that only 7.2% of farmers, approximately 8,700 farmers, encountered problems in meeting interest payments in 1980.

30. Three schemes are currently in operation to help farmers in meeting repayments. The first scheme is a 5% interest subsidy on borrowings by farmers who are in the development category under the Farm Modernisation Scheme or who are following improvement plans under the programme for Western Development.[12] The subsidy is partially funded by the EEC and applies to borrowings incurred for approved investment in land improvement, farm buildings and fixed and mobile equipment, which were or are being grant aided under the Farm Modernisation Scheme and in building structures undertaken under the Western Programme. The sum qualifying for the subsidy is the amount of the approved investment by the farmer less any grant paid by the Department of Agriculture or the outstanding balance of the loan, whichever is the lesser. The scheme applies to borrowings from the associated banks and ACC and will remain in operation until 31 December 1983.

31. The second scheme is also a 5% interest subsidy but is funded entirely by the National Exchequer and applies to farmers who are not in the development category of the Farm Modernisation Scheme. The subsidy applies to borrowings incurred for approved investment in land

[11] These figures cover interest payments on borrowings from financial institutions only. Borrowings from co-operatives, for example, are excluded.

[12] There are three categories of farmers covered by the Farm Modernisation Scheme:

(i) Development category: Farmers in this category are those who can develop their farms over a period of six years to provide an income comparable to average non-agricultural earnings;

(ii) Commercial category: These are farmers who already earn at least the average industrial wage; and

(iii) Other category: These are farmers whose resources are not sufficient to allow them to reach a comparable income within a specified time period.

improvement, farm buildings and fixed equipment which were grant aided under the Farm Modernisation Scheme. The sum qualifying for the subsidy is determined by the same criteria as in the scheme for development farmers. The maximum amount eligible for the subsidy in any individual case is £50,000. The subsidy applies to loans arranged between 1 January 1976 and 31 December 1980 with the associated banks and the ACC and is payable for up to two years.

32. The third scheme applies to farmers participating in the Farm Modernisation Scheme who are in severe financial difficulty and who can regain viability with the aid of the scheme. However, participants must first utilise their entitlement under the other two schemes. In addition to the borrowings eligible under the first two schemes, the scheme also covers livestock purchase and working capital. Loans for land purchase are also eligible provided that the total farm size was not over 120 acres when the loan was contracted. Where the purchase brought the farm size above 120 acres, aid is scaled down. This scheme has an overall limit of £100,000 on borrowings eligible for subsidy. Loans taken out during the years 1976 to 1980 and any such loans subsequently restructured are eligible, provided the net assets of the farmer do not exceed £200,000. The scheme results in an interest rate subsidy of up to 8¾%.

33. Given the long payback period of much farm investment, the Council believes that there is a need for some form of long-term credit which would reflect this long payback period. Some further work is required to examine the precise form which this long-term credit should take. The Council believes that the new arrangement for providing long-term finance for farm development under a facility provided by the European Investment Bank through the ACC is a first step in this direction.

SECTION 4

APPROPRIATE LEVEL OF FARM INCOME

34. In attempting to determine appropriate levels of farm income, the consultants consider two criteria: opportunity cost and social equity. The opportunity cost criterion involves a consideration of the income which could be earned by farmers if they decided to transfer to another occupation. Use of this criterion to determine the appropriate level of farm incomes is fraught with difficulties and begs many questions, for example, to what extent are those farmers whose incomes are below those of other workers in comparable occupations unwilling to leave

farming because of non-monetary returns in agriculture?

35. The social equity criterion is a subjective method of determining the appropriate level of farm income and involves consideration of what is an equitable level of income having regard to the income levels of other groups in society. Given the subjective nature of the concept of an equitable level of income, any number of income levels could be put forward on this basis. It is evident that no consensus could be achieved as to the appropriate income level between those whose income would be supported and those from whom the income would be transferred.

36. Another possible criterion is the restoration of farm incomes to some level previously attained. A difficulty with this criterion is the choice of base period. This is particularly difficult given the extreme variability of farm incomes in the 1970s. This difficulty could be partially overcome by utilising an average based on a number of years.

37. Having considered the options, the consultants recommend that average family farm income should be maintained at about 80% of the earnings of an industrial worker fully employed throughout the year. This recommendation is based on an intertemporal comparison of farm incomes with workers' earnings in transportable goods industries (80% was the average ratio throughout the 'sixties). It therefore involves some consideration of social equity.

38. The Council, however, believes that such a recommendation gives rise to a number of important questions. Firstly, the analysis and subsequent recommendation is based upon a comparison of industrial workers with farmers, the former being employees while the latter are self-employed. The determinants of income in both groups are therefore very different. Secondly, the comparison is between gross farm income and gross transportable goods earnings. Comparisons of net income may give rise to different results. Thirdly, the use of averages in the comparison ignores the distribution of income in both groups. Finally, it contrasts with the approach of the present social welfare code. This code does not provide income support for specified sectors of the economy but is addressed to individuals whose incomes are regarded as insufficient to provide a reasonable standard of living. The social welfare system is more selective and in the opinion of the Council more in line with the concept of social equity.

39. The Council believes that the support of agricultural incomes in order to preserve a certain relationship with the incomes of other groups in the economy is both inappropriate and impractical. Rather, it

believes that policies should be designed to encourage the growth of output leading to beneficial effects for the economy in general and providing the basis for rising incomes for those engaged in agriculture.

SECTION 5

CONSULTANTS' RECOMMENDATIONS

40. The consultants put forward two main recommendations as a means of raising farm incomes. They are:

(i) a devaluation of the Irish green pound without an equivalent devaluation in the general exchange rate for the Irish pound;
(ii) a general scheme of headage payments on all grazing livestock in Ireland.

Green Pound Devaluation

41. The Irish Green pound is the representative exchange rate used for the conversion of the common EEC prices which are denominated in ECUs to domestic currency terms. Where the Green Pound rate deviates from the market exchange rate, monetary compensatory amounts (MCAs) are applied so as to ensure the maintenance of the common price mechanism throughout the Community. Maintenance of the common price mechanism is a cornerstone of the Common Agricultural Policy, a policy which Ireland vigorously defends.

42. The consultants calculate that to raise farm incomes by £300m (the amount required, based on the consultants' definition of an appropriate level of income) by adjusting the green pound rate independently of a change in the market exchange rate, a devaluation of approximately 20% would be required. The devaluation would result in an increase in the EEC price guarantees in domestic currency above the increase agreed at the annual price fixing negotiations. It would involve the introduction of positive MCAs i.e., subsidies on exports and levies on imports.

43. A devaluation of the Irish green rate independently of a devaluation of the market exchange rate would in present circumstances run counter to the EEC objective of eliminating MCAs and would mean using the green pound system for a purpose other than that for which it was intended.[13]

[13]The farmers representatives have entered a reservation on this issue (Appendix I, Point 1).

44. Under present agri-monetary rules the only situation in which a green pound devaluation would be possible, would be in the context of a depreciation of the market exchange rate against the ECU. This would result on the positive side, in agricultural output prices increasing above the level fixed at the annual price negotiations with consequent beneficial effects on the volume of output. On the negative side, import prices would increase, inflation would increase and if compensation were achieved for these price rises, inflation would accelerate further. Increases in input prices would reduce the nominal level of farm incomes while the acceleration in inflation would reduce the real value of incomes. In addition, the adverse effects on other sectors of the economy need to be considered. The Council has already considered the use of the exchange rate as a policy instrument in the context of broad macro-economic policy and concluded that it was an inappropriate policy instrument.[14, 15]

45. A green pound devaluation of 20% would lead to an increase in the price of food to the consumer of approximately 3%. The price increase to farmers would therefore be partially funded by the domestic food consumer. It is estimated that approximately £100m of the £300m farm income increase would come from domestic consumers through higher prices. The consultants suggest that food subsidies might need to be introduced to alleviate the effects of the higher food prices. To the extent to which food subsidies are introduced, the income transfer would be funded by the taxpayer rather than by the consumer. The issue of income transfers between sectors, however, is much more complex than suggested here.[16]

46. On balance, the Council believes that a green pound and market exchange rate devaluation would provide only very temporary relief to farmers while a green pound devaluation independently of a change in the market exchange rate would undermine the principle of the CAP, with resulting adverse implications for Irish agriculture in general. The Council does not therefore agree with the consultants that a green pound devaluation is a desirable means of raising farm incomes.[17]

47. Another possible means of raising farm incomes is the introduction of a floating positive Irish MCA linked to the UK MCA. This would have the merit that it would be directly related to the inflationary impact

[14]NESC No. 53, NESC, No. 62.
[15]The farmers' representatives have entered a reservation on this issue (Appendix I, Point 2).
[16]The farmers' representatives have entered a reservation on this issue (Appendix I, Point 3).
[17]The farmers' representatives have entered a reservation on this issue (Appendix I, Point 4).

which a strong sterling has on the Irish economy. As sterling weakened so the positive MCA subsidy would automatically diminish. In the same way as the Irish pound was linked to sterling for general purposes but separate for agricultural purposes from 1976 to 1979, the reverse position could be equally conceivable.

48. This mechanism, however, has to be evaluated in the context of the agri-monetary arrangements of the CAP which are outlined in Appendix II. Under these arrangements, MCAs are applied as a temporary measure as a result of divergences between market exchange rates and agricultural conversion rates. They cannot, therefore, be introduced independently of changes in market exchange rates.[18]

49. The Council recommends that if agricultural price increases and domestic cost increases are not reconciled by fiscal measures (as has been done through Green Pound devaluations in the past), the Government should examine alternative ways whereby an appropriate relationship between prices and costs are maintained. An essential element of this reconciliation should be moderation in the rate of increase of domestic costs. The Council's views on this issue are contained in NESC Report No. 62.[19]

Livestock Headage Payments

50. The consultants calculate that the achievement of an increase in farm incomes of £300m solely through a general headage payments system would require an additional payment of over £50 per grazing livestock unit, part of which should be obtainable from the EEC. In order to achieve this the consultants state that it would seem desirable to have the entire country declared a "less favoured area" under directive 75/268. The entire country is treated as one region for EEC regional policy purposes.

51. Directive 75/268 is aimed at assisting regions, which satisfy the following criteria:

(i) adverse physical handicaps, such as low soil fertility;
(ii) low economic returns;
(iii) a low or dwindling population depending mainly on agriculture, relative to the country as a whole.

[18]The farmers' representatives have entered a reservation on this issue (Appendix I, Point 5).

[19]In *Economic and Social Policy 1981, Aims and Recommendations* (NESC No. 62) the Council discussed among other things the issues of inflation and the growth of public expenditure. A series of recommendations were also addressed to the factors which would contribute to moderation in the rate of increase of domestic costs.

52. Under this directive it would be impossible to designate the whole of Ireland as disadvantaged as it could not be shown that it met these multiple criteria. The designation of the entire country as a disadvantaged area would require a fundamental revision of Council Directive 75/268 or more realistically a new directive aimed specifically at providing for the Irish situation.

53. The Council believes that the proposal relating to livestock headage payments gives scope for redressing the adverse output and income trends in Irish agriculture and for maintaining future incomes. The Council recommends that a general headage payments system of the type and nature recommended by the consultants be examined further by the Government. The Council believes that this examination should take into account the funding arrangements, particularly, the likely relative contributions of the national exchequer and the EEC. In this context it also recommends that the Government request the European Commission to propose to the EEC Council of Ministers that a new directive be enacted which would enable the entire country to benefit from headage payments because of the special income problems prevailing and to maintain the population in agriculture.

Budgetary Implications

54. The Council in Report No. 62[20] recommended to the Government that the current budget deficit should be eliminated over a three year period. This will require increases in taxation and a reduction in current expenditure. The Council recognises that any recommendation on additional expenditure to agriculture has to have regard to this reality. Additional expenditure on agriculture would therefore have to be accompanied by additional increases in taxation or an equivalent reduction of expenditure in other areas.

55. This raises the issue of priorities within Government expenditure. The Council believes that a guiding principle in assessing priorities should be the extent to which expenditure encourages the growth of output in the economy. The Council has previously emphasised the importance of the exposed sectors of the economy in generating growth. In this respect the Council acknowledges the importance of the agricultural sector to the economy in general in terms of output, employment and exports.

56. The Council, while recommending that the possibility of a general headage payments scheme should be examined believes that the size of

[20]*Economic and Social Policy 1981, Aims and Recommendations* (NESC No. 62).

any headage payment has to be examined in the context of the relative contribution of the EEC and the national exchequer. To the extent that the burden of additional expenditure falls on the national exchequer the Government should ensure that expenditure reductions are effected in other areas to avoid any increase in the current budget deficit. Alternatively, this could be achieved through additional taxation.

SECTION 6

SOCIAL EQUITY VERSUS EFFICIENCY

Social Equity versus Efficiency

57. Social equity and distributional issues are not the only considerations which should guide policy in this area. In earlier paragraphs the importance of agriculture to the economy was outlined. It is important, therefore, to consider the issue of efficiency (i.e., the extent to which any support measures will provide a return to the national economy in terms of increased output, improvement in the balance of payments etc.) in any discussion of the steps which might be taken to alleviate the income situation of farmers.

58. There is likely to be a certain degree of conflict between efficiency and equity objectives, particularly in the short run. The greatest return to the economy in terms of increased agricultural output (efficiency criterion) will be achieved by concentrating expenditure on the most productive farmers who are also likely to be earning relatively high incomes. Social equity criteria, on the other hand, would suggest that income support should be concentrated on farmers with lower levels of incomes. It is also likely that different types of incentives and income support measures will vary in their efficiency. Very little evidence is available to discriminate between various measures in terms of efficiency.

59. The Council believes that any income support measures should be designed in such a way that the maximum return accrues to the economy while the social equity objective should be pursued through tax and social welfare arrangements. The guiding principle for the latter should be similar to that at present used under the social welfare code, i.e., the identification of *individuals* whose income is not sufficient to provide a reasonable standard of living.

SECTION 7

COUNCIL'S CONCLUSIONS AND RECOMMENDATIONS

60. The decline in real farm incomes in 1979 and 1980 following the boom period of 1974-78 was primarily caused by the adverse movement in the price/cost ratio. This resulted from a reduction in the rate of increase of agricultural output prices while agricultural input costs continued to increase rapidly. In addition, a decline in net output over the two years accompanied by an increase in the volume of farm materials exacerbated the income decline.

61. The Council acknowledges the importance of agriculture to the economy in general and believes that farmers should be supported indirectly through aid designed to encourage the growth of output in the context of an effective national farm plan. The Council does not agree with the consultants that farm incomes should be fixed in relation to other groups in society.[21]

62. The Council recommends that the Government request the European Commission to propose to the EEC Council that a new directive be enacted which would enable the entire country to benefit from headage payments. This situation would be facilitated by the objectives of the Common Agricultural Policy which clearly outline the obligations of the EEC towards the farming community. One of these objectives is to:

> "ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture".

In order to have maximum impact on the volume of output, these headage payments need to be accompanied by an improvement in the price/cost ratio. This improvement will depend primarily on the success in moderating the rate of domestic cost increases.

63. The size of any headage payment has to be considered in the light of the following factors:

(i) the need to encourage the growth of output in agriculture which would have beneficial effects on farm incomes and on the economy in general;
(ii) the need to eliminate the current budget deficit;

[21] The farmers' representatives have entered a reservation on this issue (Appendix I, Point 6).

(iii) the proportion of the payment financed by the EEC.

The Council believes that the proportion of any headage payment financed by the national exchequer should be accompanied by expenditure reductions in other areas and/or taxation increases such that the aid to agriculture does not contribute to an increase in the current budget deficit.

64. The Council views with concern the adverse relationship between the volume of farm materials and volume of output which has prevailed in some years. While a number of factors may account for this, for example: adverse weather conditions, disease eradication, changes from one type of enterprise to another, the Council recommends that a study be undertaken to examine the relationship between the volume of farm materials and the volume of output.

65. The Council recommends that any system of headage payments should be designed in such a way that the maximum return accrues to the economy in terms of increased output. This may necessitate the concentration of headage payments on the most productive farms and would be likely to result in higher income farmers getting the greatest amount of support. This proposal should therefore be accompanied by a mechanism whereby redistribution can take place within agriculture.[22] Any headage payments should be conditional upon acceptance of this mechanism. The Council believes that minimum incomes in agriculture should be maintained through the social welfare code. The Council believes there is a need for a reassessment of the extent to which this is being achieved under the current social welfare code.

66. The Council believes that there is a need for some form of long-term credit facility for agriculture which would reflect the long payback period of some farm investment. The Council recommends that various facilities should be examined with the purpose of trying to provide farmers in Ireland with comparable access to long-term credit as is available in other EEC countries. The Council believes that the new arrangement for providing long-term finance for farm development under a facility provided by the European Investment Bank through the Agricultural Credit Corporation is a first step in this direction. The interest rate on this long-term credit should be such as to encourage investment which would accelerate the growth of output.

67. The Council believes that in order to achieve increased and sustained

[22]The farmers' representatives have entered a reservation on this issue (Appendix I, Point 7).

growth in the agricultural sector (including food processing), a detailed plan is required encompassing output targets for the major sub-sectors (dairying, beef, cereals etc.) together with the means and incentives required to achieve these targets. The Council acknowledges that the means and incentives must have regard to the Common Agricultural Policy. The inter-relationship between the agricultural and other sectors of the economy makes it imperative that trends in agricultural output and incomes be closely monitored. Such monitoring of the trends in output is necessary, also, in order to evaluate the effectiveness of Government expenditure on the agricultural sector. The Council recommends that the trend in farm incomes should be monitored in the context of any discussion of the development of incomes.

APPENDIX 1

RESERVATIONS OF FARMERS' REPRESENTATIVES

1. The farmers' representatives wish to point out an anomaly under present agri-monetary rules in that the rules do not allow for a green pound devaluation to take account of the significant revaluation of sterling vis-a-vis the Irish pound since the establishment of EMS, and the associated inflationary pressures generated in the economy.

2. The farmers' representatives consider that the NESC recommendation on the exchange rate was part of a package of interrelated recommendations, including recommendations on incomes, taxation and public expenditure. Now that these NESC recommendations have not been implemented in practice, the recommendation on exchange-rate policy needs to be reviewed by NESC in light of the changed economic circumstances.

3. The farmers' representatives consider that an income transfer from consumers to agriculture may be simply reversing a previous flow in the opposite direction.

4. The farmers' representatives, in keeping with their comments on paragraphs 43 and 44 do not support the views outlined in this paragraph.

5. The farmers' representatives wish their comments on paragraph 43 to be noted in relation to this paragraph.

6. The farmers' representatives do not support this position and consider that in the context of planned farm development, the major contribution which the Government can make to agriculture is to provide domestic economic conditions which allow Irish agriculture to compete in a fair basis with the rest of EEC agriculture. In particular, CAP price increases should be as real for Irish farmers as for other EEC farmers. While the government must continue its efforts to protect the principles and mechanisms of the CAP at EEC level and to obtain the maximum benefits from the CAP for Ireland, this in itself may not be sufficient if domestic economic conditions continue to more than fully erode the benefits achieved at EEC level. The Government must therefore examine ways of equating price rises and cost rises for Irish agriculture. An integral part of agricultural development is the restoration of the relative income position of farmers within the economy, and the restoration of the competitive position of Irish agriculture within the EEC. These objectives could be achieved by a combination of:

(i) special measures for Ireland to be negotiated as part of the annual EEC price reviews;

(ii) a realignment of the Irish currency in EMS to take account of differential inflation rates since the establishment of EMS. The realignment should not form the basis of further income demands, since it is the excessive inflation including inflationary wage settlements which has brought about the need for such a realignment. The realignment should be implemented in the context of a coherent package of economic recovery measures for Ireland with the three-fold objective of restoring export-led economic growth, reducing unemployment, and controlling domestic inflation; and

(iii) appropriate amendments to existing EEC agri-monetary rules, to be sought by the Government, to correct the present exchange rate anomaly that has arisen in relation to the Irish agricultural sector. These amendments should accommodate an independent green pound devaluation to take account of the significant revaluation of sterling against the Irish pound, or would allow for other temporary measures as outlined in paragraph 47. Alternatively analagous measures, such as the meat employment protection scheme and the milk subsidy scheme which were approved by the EEC for implementation in Northern Ireland to take account of problems arising due to agri-monetary anomalies in the past, should be sought by the Government.

7. The farmers' representatives take the view that any income transfer must operate in the context of the community as a whole and not simply in terms of redistribution within agriculture.

APPENDIX II

MONETARY COMPENSATORY AMOUNTS (MCAs) AND THE GREEN CURRENCY SYSTEM

1. One of the main features of the CAP is a common level of price support to farmers throughout the Community. MCAs were introduced to ensure the maintenance of the common level in a world of fluctuating currencies. To appreciate the working of the system it is necessary to examine it in a historical context.

2. Guaranteed agricultural prices are set in European Currency Units (ECUs)[1] and converted into national currency terms by means of an agricultural conversion rate.[2] Each Member State has its own conversion rate. In the early 1960s this conversion rate was equal to each country's market exchange rate. This system worked well in the 1960s when market exchange rates were reasonably stable.

3. However, in 1969 this system of stable exchange rates began to break down and market exchange rates began to fluctuate while the conversion rates remained unchanged. This resulted in market exchange rates deviating from agricultural conversion rates. In countries with depreciating currencies the value of agricultural exports in national currency terms increased. The reverse situation prevailed in countries with appreciating currencies. With fluctuating market exchange rates and fixed agricultural conversion rates the objective of common prices could not be achieved in the absence of some additional mechanism.

4. This additional mechanism consisted of border taxes and subsidies (i.e., MCAs).[3] Broadly speaking, for each Member State whose market exchange rate has decreased in value vis-a-vis its green rate (i.e., a depreciated currency) a negative MCA based on the percentage gap between

[1] The ECU replaced the Unit of Account with the advent of the EMS.

[2] These are also called representative or Green rates.

[3] It is important to note that MCAs are introduced because agricultural conversion rates are not immediately realigned with market rates. Were this realignment to occur there would be no need for MCAs.

the two rates is charged on its exports and an equivalent amount granted as a subsidy on its imports. Member States whose currencies have increased in value (i.e., appreciated currencies) apply positive MCAs, i.e., their exports are subsidised and their imports subjected to charges. The actual amount of the MCA is obtained, in principle, by applying the MCA percentage to the intervention price. For example, the market exchange rate for sterling is currently approximately 8.1% above its agricultural conversion rate (i.e., the market rate has appreciated vis-a-vis the agricultural rate). In order to maintain common prices, imports into the UK are subject to a levy. In the case of butter, for example, the intervention price is £1918 per tonne and the levy on UK imports of butter is £155 per tonne (i.e., 8.1% of the guaranteed price), thus reducing the value in sterling of imports of butter into the UK by approximately 8.1%.

5. **Recent Developments**

With the introduction of the European Monetary System in March 1979 and the improved monetary stability which it entails (i.e., for all Member States, except UK, currencies move, under normal circumstances, only within agreed bands of fluctuation) it was generally accepted that MCAs should be progressively dismantled. In fact there is a gentleman's agreement between Member States (with the exception of the UK), that newly-introduced MCAs should be eliminated within 2 years. MCAs had been eliminated in Ireland, Denmark, the Netherlands, France, Belgium and Luxembourg, and avoided in Greece but recent EMS realignments have given rise to their temporary reintroduction in Denmark and the Benelux countries. Some progress has also been made in reducing German, Italian and UK MCAs.

PART II

FARM INCOMES: ANALYSIS AND POLICY

by

P.G. COX, J HIGGINS and B. KEARNEY

CHAPTER ONE

INTRODUCTION

1.1 The pattern of development and change in Irish agriculture over the past decade is without precedent in post-war times and is in marked contrast to the earlier decades. In the 'fifties farm incomes expressed in terms of income from self-employment per family labour unit[1] increased at about 5 per cent per annum while inflation had been running at 3 per cent. During the 'sixties incomes rose annually by about 8 per cent through which period the average yearly rate of inflation was 5 per cent. When incomes in farming were perceived to lag behind those in other sectors, government generally responded by introducing increased support measures, by increasing product prices and/or by subsidising inputs. Depressions in incomes tended to be associated in the early years with bad harvests, when tillage was relatively more important, and in the 'sixties with crises in the cattle industry. Significant variation in factor/product price relationships was not a feature of these decades and therefore did not contribute appreciably to fluctuations in incomes.

1.2 Over the past decade, however, there have been fairly violent swings in many of the price and farm performance indices and the industry has also been characterised by alternating phases of optimism and pessimism as manifested in the pattern of capital investment and the consumption of current inputs. Furthermore, growing specialisation and indebtedness and the continuing substitution of purchased for farm produced inputs render the sector more vulnerable to aggregate developments in other sectors of the domestic and external economies.

1.3 Indeed, the fluctuations in agricultural output and incomes must have greatly exceeded expectations before EEC membership. Accession to the Community was expected to generate not only high but stable incomes in farming and perhaps it was the shattering of this belief which was as responsible as any other for the bruised confidence of producers in 1974 as manifested, for instance, in the considerable de-stocking

[1] This is calculated by dividing the income from self-employment (as defined later) by the family labour force in agriculture.

which occurred. However, the period of retrenchment and uncertainty which normally succeeds a depression was shortened by the considerable rise in product prices due to the combined effects of accession compensatory amounts, monetary adjustments and relatively large increases in Community prices.

1.4 In the subsequent four-year period, 1975-78, there was a substantial growth in output and incomes in particular, but this pattern was brought to an abrupt halt in 1979 due to a combination of adverse circumstances. The impact of this unfavourable environment was exacerbated by the effect of the rapid rise in interest rates on farm borrowings, much of which was incurred at the end of a period of unusual buoyancy in agriculture.

1.5 The dramatic decline in farm incomes in 1979 and 1980 which will be quantified in the first part of this study highlights the extent to which 1978 has been a watershed in the agricultural economy, particularly in regard to price/cost relationships, output and incomes. All these indicators of performance declined in the two subsequent years culminating in a decline in nominal income from self-employment[2] as estimated in the national accounts by 19.5 per cent from 1978 to 1980. In the light of these developments, there is a growing realisation that some of the problems of Irish agriculture may not be amenable to solution under the existing EEC price and socio-structural policies which are applied irrespective of differential rates of inflation in the Member States. It is against this background that the National Economic and Social Council requested An Foras Talúntais to undertake a study of farm incomes with the following terms of reference:

> To evaluate and comment, in the national and EEC context on the current trends in farm incomes and to identify what policies should be pursued in order that appropriate levels of farm incomes may be achieved and subsequently maintained.

Scope of Study

1.6 The study as envisaged in the terms of reference encompasses three main areas paralleling the main problem and policy issues in question viz:

a) a review and analysis of recent trends in Irish farm incomes in a national and EEC context, with particular reference to the factors affecting fluctuations in incomes in recent years and an outline of probable developments in output and incomes in the short term;

b) an assessment of the objectives and criteria implicit in determining an 'appropriate level of farm income' having regard to such factors as the concept of income, including its distribution, in an aggregate and individual context; the issue of relativity between farm and non-farm income over time, and the implications for resource allocation within the farm sector and between sectors;

c) an outline and assessment of certain policy measures of a price, fiscal, structural and/or social nature which might be considered at national or Community level to attain specific objectives as might be outlined under (b) above.

1.7 Chapter 2 contains a review and analysis of recent trends in farm incomes in Ireland and a similar assessment is undertaken of developments in certain other Member States of the EEC. This is followed by an outline of probable developments in farm output and incomes in the short term under stated assumptions. Chapter 3 is concerned with an assessment of criteria for determining an 'appropriate' level of income in the farming sector.

1.8 Consideration is also given to differentiating between income from farming activities and other sources of incomes in the aggregate farm sector and the implications of this distinction for income distribution and relativity with other socio-economic groups. The fourth Chapter includes an analysis of policy measures at national and Community level regarding their relevance to attain specific income objectives. Finally, the adequacy of existing policy measures is considered in the light of expected developments in farm incomes as outlined in Chapter 2.

[2]Income from self-employment (and other trading income) as estimated by the Central Statistics Office is the difference between net output and expenses adjusted for the subsidy under the Land Acts and subsidies not related to sales, less wages and salaries and Land Annuities.

CHAPTER TWO

DEVELOPMENTS IN FARM INCOMES

Measures of Farm Income

2.1 Farm income can be measured using either aggregate statistical data or data from Farm Management Surveys. The former data are published annually by the Central Statistics Office and the latter are published by An Foras Talúntais. In this chapter aggregate income data are used to make intertemporal and international comparisons. A brief discussion is given here on the aggregate measure of farm income most commonly used in Ireland, namely income from self-employment and other trading income.

2.2 For the purposes of measuring this aggregate income all units producing agricultural products are treated as if they were one large farm (the national farm). Gross output is sales off the national farm to the non-farm sector. It excludes sales from one farm to another. It includes household consumption of products produced by farmers on their own farms and valued at farm gate prices. It also includes the value of changes in livestock numbers.

2.3 Income from self-employment and other trading income is obtained by subtracting from gross output

a) the cost of farm materials (feed, seeds and fertiliser),
b) 'other expenses', which include rates, repairs and maintenance of machinery, fuel and oil costs, machinery depreciation; further deductions are made for hired labour costs and land annuity payments, but subsidies not related to sales (e.g., livestock headage payments) and subsidies paid under the Land Acts are added back.

2.4 The main deficiency of this measure of farm income is that it excludes interest on borrowed capital and depreciation on buildings which are two major items of costs. A full discussion is given in Chapter 3 on both aggregate and other measures of farm income and on their deficiencies as measures of farmers' incomes.

Developments over the Past Decade

2.5 The years immediately preceding EEC entry were reasonably buoyant after the fall in incomes caused by the depression in cattle prices in the mid-sixties. Output and prices increased appreciably and per capita incomes were further boosted by a significant increase in labour productivity. The major features of these years were increasing cattle output coupled with rapidly rising prices, reflecting supply/demand imbalances both in the Community and world markets. In the period 1969-1972 which coincided with the Third Programme the actual growth in the volume of gross agricultural output exceeded the target of 2.7 per cent per annum.[1]

2.6 Figure 1 depicts the pattern of growth in the value of gross agricultural output,[2] income from self-employment and per capita incomes deflated by the consumer price index from "1970"[3] to 1981. The decade commenced with high expectations of EEC membership. Simultaneously, the increasing demand for beef due to rising disposable incomes in the developed countries coupled with sluggish supplies effected a substantial rise in cattle prices. As will be observed, output and incomes increased substantially from "1970" to 1973; incomes per capita having increased by nearly two-thirds over the same period. Over this period also the output/input price ratio increased by about 20 per cent. In the following year, however, there was a sudden and dramatic decline in cattle prices associated with the rapid increase in world beef and veal supplies relative to demand and in the degree of self-sufficiency in the EEC-9 from 84 per cent in 1972 to 100 per cent in 1974.[4] This event coincided also with the escalation in input costs and the world-wide recession and inflation following on the oil crisis in 1973. The combination of soaring input costs and static or declining prices led to a fall of 27 per cent in the output/input price ratio and caused an appreciable decline in farm incomes in Ireland. A similar downturn was experienced in most other Member States and led to considerable pressure for an increase in Community prices.

2.7 Thus began an era of relatively large increases in the common price

[1] Third Programme – Economic and Social Development – 1969-1972 Prl. 431 1969.

[2] Gross agricultural output (GAO) as estimated in the national accounts comprises sales off farms plus household consumption of commodities produced on the farm. Imports of livestock are deducted and account is taken of the value of changes in livestock numbers on farms. Net agricultural output (NAO) represents the difference between GAO and expenditure on farm materials purchased by farmers (e.g., feeding stuffs, fertilisers including lime, and seeds).

[3] "1970" = average 1969, 1970 and 1971.

[4] Yearbook of Agricultural Statistics, SOEC, various issues.

to its contribution to output and incomes camouflaged disturbing trends in some other sectors. For example, side by side with the moderate expansion in dairy cows and milk yields – the two components of milk supplies – the beef breeding herd had been in persistent decline which seems to have gone unnoticed until expansion in dairying slowed or ceased entirely.

2.9 In summary, real per capita incomes (i.e., nominal incomes deflated by the consumer price index) were over double their 1970 level in 1978. However, the pattern of rapid improvement in real incomes not alone induced a dramatic increase in capital investment (see A.3) which subsequently bore heavily on the repayment capacity of many farmers, but it may also have been perceived as the beginning of a new and sustained trend in farming.

Reversal in Output and Incomes

2.10 The reversal in output and incomes in 1979 and 1980 was as sharp as it was unexpected due to a deterioration in cost/price relationships and unfavourable production conditions. As 1978 was the last year in the transition to the common EEC price level no compensatory adjustments[6] were available from that source in 1979. Additionally, the rate of increase in agricultural prices from the annual price review and monetary adjustments was the lowest since the country joined the Community in 1973. However, climatic factors considerably aggravated the situation. Severe production conditions in the spring seriously curtailed grass growth and delayed cultivation and sowing in the tillage sector. These conditions depressed both crop and animal performance resulting in lower yields. The forage deficit in the first half of the year forced producers to purchase more concentrated feed for their livestock which in combination with lower product yields increased unit costs substantially. In the early months of 1979, also, there was considerable controversy surrounding the concept of excise duties[7] being levied on certain farm products in lieu of taxation and on the scope and form of future taxation measures.

2.11 While these factors may not have had a serious impact on output and incomes in 1979 they probably caused some hesitancy in producers' decisions especially in the latter months of the year. Furthermore, the

[6]Compensatory adjustments refer to the process by which the difference between the common EEC price level and Irish agricultural prices on accession to the Community was gradually reduced over the five year transitional period.

[7]A 2 per cent excise duty announced in the 1979 Budget was subsequently modified in terms of its application; eventually it was levied on sales of milk and certain categories of cattle from May 1, 1979 and on cereals and sugar beet from August 1, 1979 until December 1, 1979.

agricultural sector began to realise that common price adjustments at Community level could have widely differing income effects depending on diverging rates of inflation in the Member States concerned. In any event agricultural incomes as determined in the national accounts declined in nominal terms by 12 per cent, reflecting adverse relative trends in the output/input price ratio and a fall in the volume of gross output. There was also a substantial increase in farm inputs, much of which was in response to adverse production conditions, but it also reflected in the early part of the year, the buoyant cash position of farmers after the previous year.

2.12 The downturn which commenced in the agricultural economy in 1979, persisted strongly in 1980. After the pattern of 1979 the production environment was unfavourable to agricultural performance. Product prices were almost universally lower than in 1979, the rise in input costs was even greater, as was inflation, and interest rates reached historically high levels. The difficult weather conditions of 1979 were also repeated, seriously affecting fodder conservation and cereal production, and in general terms crop and animal yields were largely static.

2.13 As previously mentioned, Ireland's high inflation rate seriously eroded whatever price advantage might have been achieved in the EEC price review. This is exemplified by the fact that while EEC prices were increased by about 4 per cent the agricultural output price index declined by 2.7 per cent; by contrast the input price index increased by 14.5 per cent. As indicated in Table 2.1, the volume of gross output was virtually static in 1980, but net output in volume terms increased by over 7 per cent due to the significant reduction in the consumption of current inputs. However, aggregate income in nominal terms declined by over 8 per cent.

2.14 Some of the more serious developments in the agricultural economy in 1980 were the significant rundown in cow numbers and the considerable degree of destocking (A.4). Cattle stocks were some 419,000 less at year end due to a combination of unfavourable factors. These included an anticipated shortfall in fodder stocks, the general economic situation in farming and the progress of the disease eradication programme. At the June enumeration cow numbers had fallen by 3.5 per cent principally due to a further major decline in the beef cow herd which had been a persistent feature of this segment of the total breeding herd since 1974. What appears to be a continuing problem was accentuated towards the end of 1980 when the level of replacement stock was insufficient to compensate for the reduction in cow numbers. However, the major source of the continuing decline in the breeding

herd has been increased disposals (i.e., sales off national farm) rather than reduced draftings (i.e., replacements) which is in contrast with the situation in the period 1967-1974.[8]

2.15 The seriousness of this decline in the beef cow herd was eventually recognised at official level when a number of measures[9] were introduced in the autumn of 1980 to counter the downward trend in the beef breeding herd. Indeed, a major objective of these measures was to promote expansion in the herd which 'was essential to the future well-being of agriculture and the economy as a whole'.[10] Whether the extent and timing of the increase in headage payments would stimulate expansion in 1981 was very much open to question.

COMPARATIVE TRENDS IN MEMBER STATES

2.16 The favourable trend in agricultural incomes which developed in Ireland in the late 'sixties and the early 'seventies was a feature of the farm sector in virtually every other Member State in the Community. There was a significant increase in real incomes[11] up to and including 1973, with the increase in that year ranging from 21 per cent in the Netherlands to 68 per cent in France over the level obtaining in '1968'; the corresponding increase in Ireland was 51 per cent. This pattern reflected the strong upward trend in producer prices, which exceeded the increase in the costs of current inputs used in agriculture although inflationary trends began to accelerate at this time. However, the upward trend in farm incomes was strongly reversed in 1974 with the increase in input costs being about three times greater than the rise in producer prices. The upward movement in internal prices generally was strongly illustrated in the very high rate of increase in consumer prices. However, there was a greater relative stability in prices in countries whose currencies were appreciating and vice-versa in countries with depreciating currencies.

2.17 The end of 1974 saw the beginning of a phase of successive devaluations of the Irish Green Pound beginning in October, although negative monetary compensatory amounts had been in existence from

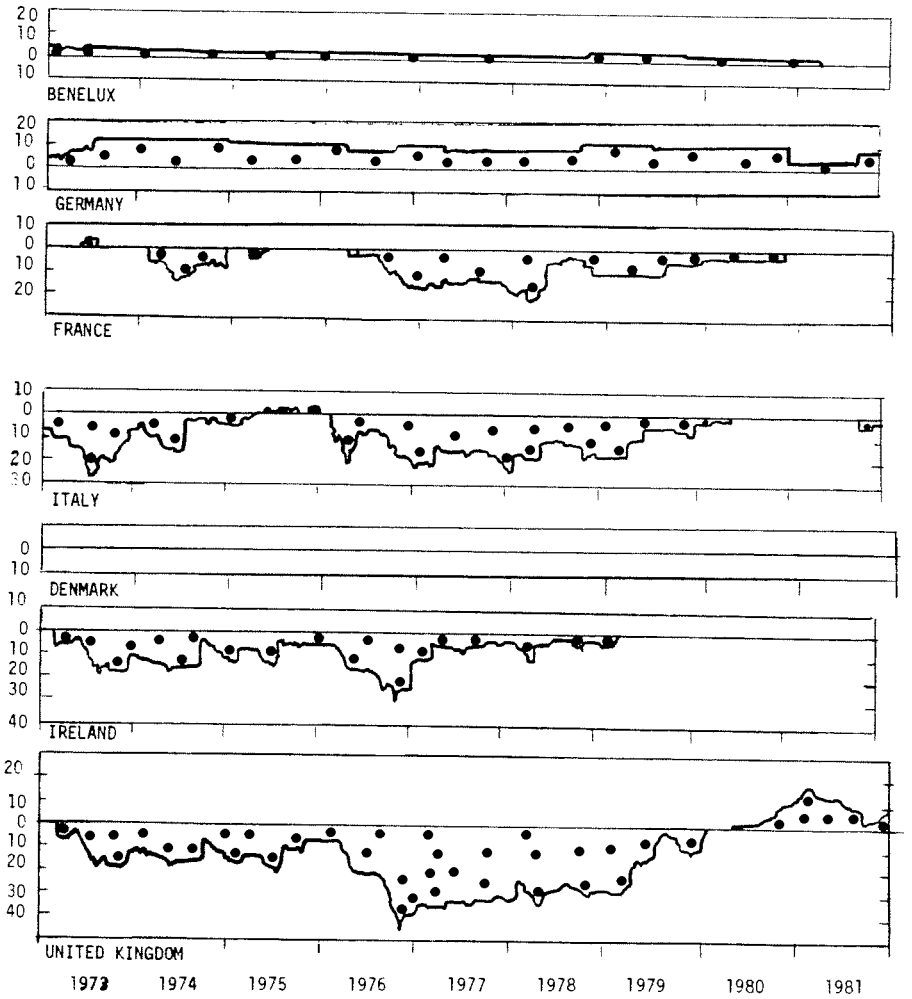
[8]Kearney, B. op.cit.

[9]These are outlined in Chapter 4.

[10]Press Release, Government Information Services 196/80 – 12th September, 1980.

[11]The measure of 'income' used in this context is that employed in the compilation of EEC sectoral incomes. Net value added at factor cost represents the difference between the value of final production and the sum of the value of intermediate consumption plus depreciation. It would correspond approximately to labour income if interest payments were taken into consideration in the calculations.

Figure 2: Rates (%) used for the calculation of monetary compensatory amounts*
1973 - 1981



* Minimum rates

the previous year. From mid-1974 to mid-1978 the Irish Green Pound had been devalued by over 40 per cent with a corresponding impact on official price levels here, but even throughout that period substantial MCAs still obtained as illustrated in Figure 2. By contrast, the levels of MCAs for Germany, also shown in Figure 2, were strongly positive over the period, reflecting the extent to which German farm prices exceeded their 'true' levels. Over this period (1974-1978) real per capita incomes, as defined in Footnote 11, increased in the Community by about 5 per cent on average, varying from a decline of about 5 per cent in France and the UK to an increase of 49 per cent in Ireland.[12]

2.18 The discrepancy between the market and green rates for sterling and the French franc was considerable in some of these years and agricultural prices in these States suffered accordingly. However, in Ireland, with the exception of 1976, repeated green currency devaluations gave a strong impetus to farm prices and Ireland was one of the few countries where over this period the rate of increase was greater for output prices than for the price of intermediate consumption or inputs. (See Table 2.1).

2.19 It is of considerable interest to examine the evolution of official prices in Ireland in order to determine the relative importance of accession compensatory and monetary factors and adjustments in the Community price levels to the development of gross agricultural prices. For illustrative purposes the gross price is taken as the price equivalent of the respective intervention products when expressed in the price per gallon of milk.

2.20 Table 2.2 outlines the level of intervention prices for butter and skim powder at the end of each marketing year for the period 1972/73 to 1977/78 including the last accession compensatory amount. Both common (EEC) and Irish prices are shown in units of accounts and the equivalent expressed as the value of product for a standard quantity of milk.

2.21 Over the period the EEC milk price equivalent of the intervention products increased by almost 43 per cent, whereas the corresponding increase in Ireland was just over 59 per cent; the difference being attributed to the transitional adjustments. When, however, the Irish milk price equivalent is expressed in gross price per gallon at the appropriate representative rate for the Green Pound, the increase in price over the

12 A note on the operation of green currencies and the MCA system is presented in A.I.

Table 2.2

Development of common and Irish intervention prices and trend in the gross price of milk

	1972/1973	1973/1974	1974/1975	1975/1976	1976/1977	1977/1978	1977/1978 as % of 1972/1973
	ua/tonne						
Butter:							
EEC	1860.0	1760.0	1835.8	2095.8	2238.0	2309.5	24.2
Ireland	1551.1	1602.5	1704.3	1983.2	2160.3	2309.5	48.9
Skim powder:							
EEC	540.0	660.0	827.4	887.0	913.7	940.9	74.2
Ireland	540.0	660.0	827.4	887.0	913.7	940.9	74.2
Milk equiv:[1]							
EEC	2894.6	3037.1	3445.8	3818.7	4010.8	4135.0	42.9
Ireland	2593.3	2883.4	3317.5	3708.8	3935.0	4135.0	59.4
Milk price:[2] gross Irish price equiv. (p/gall)	23.4	26.1	33.3	42.0	53.3	59.8	155.6

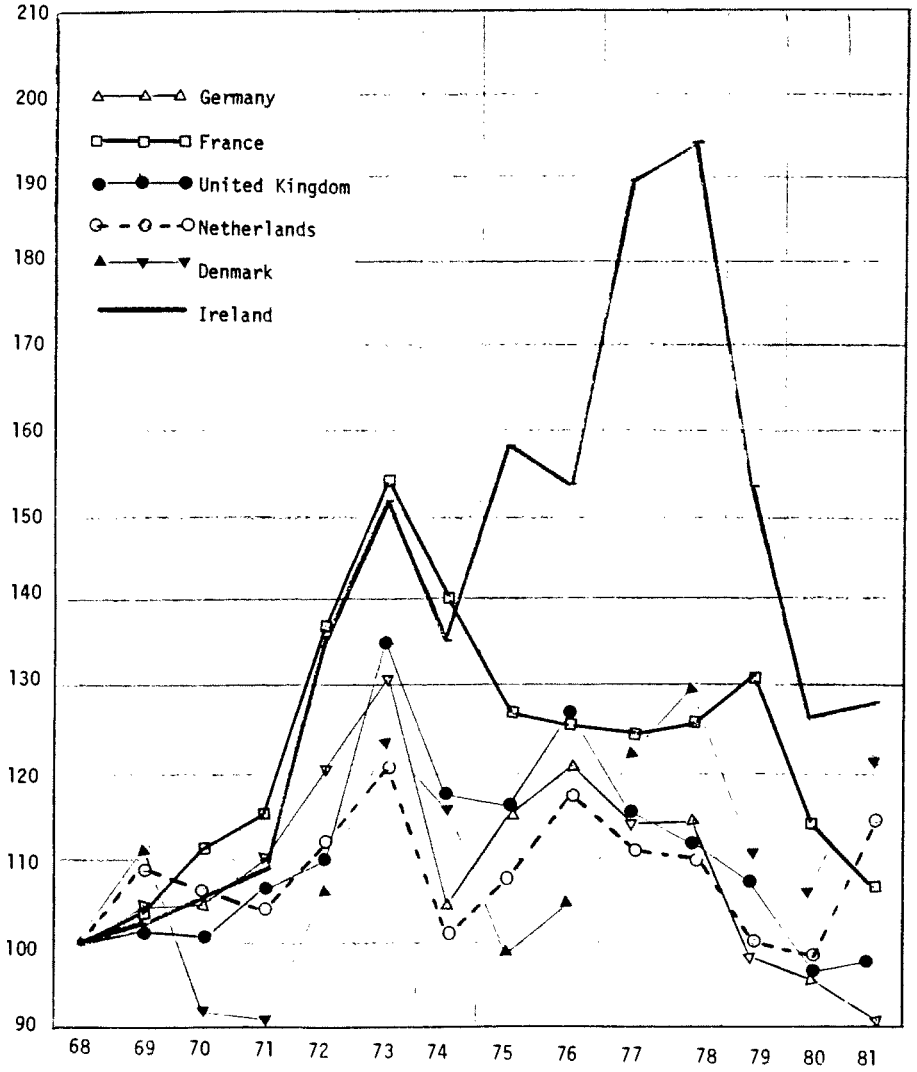
1. Based on the value in ua of the product of 5,112 gallons of milk; i.e. one tonne of butter + 1.94 tonnes of powder approx.
2. The value of (1) expressed as value of product per gallon.

period had been nearly 156 per cent, the difference arising from an approximate 40 per cent devaluation of the Green Pound. Consequently, about 60 per cent of the increase in milk prices in Ireland can be attributed to green currency devaluation and the balance to transition and the annual price reviews. The foregoing example underlines therefore, the extent to which rising input costs in Ireland over the particular period were at least compensated through the mechanism of adjustments in the reference rate for the Green Pound. This option is not now readily available in the context of Ireland's participation in the European Monetary System.

Farm Incomes in the Period 1979-1980

2.22 The reversal in farm incomes in 1979 and 1980 which has occurred dramatically here in Ireland was also being experienced with varying degrees of severity in other Member States of the Community as illustrated for a number of them in Figure 3 and outlined in Table A.5 in some detail. Again the concept of income that is used here is 'net value added at factor cost' which is a reasonable approximation for inter-country comparisons of trends in the returns to farming. However, to the extent that interest charges on borrowed capital are ex-

FIGURE 3 : Development of real income per head in agriculture



cluded in its computation it would not provide the ultimate basis for comparison where the level of interest payments are differentially borne as a proportion of net value added across Member States. Table 2.3 outlines contrasting developments in nominal incomes for a number of countries setting the position of Ireland in perspective. As indicated, whereas most countries experienced a decline in nominal incomes in 1979 the position was considerably aggravated by the widely diverging inflation rates in the countries concerned; in fact France experienced an increase in real incomes, due to a rise in the volume of production despite its relatively high inflation rate. The decline in incomes in 1980 was less severe, but as is shown in Table 2.4 the accelerating inflation rate exacerbated the situation. The inflation, output and input price milieu in which incomes were evolving in this period in these countries is shown in Table 2.4. As before there is a fairly clear distinction between groups of countries with respect to the rate of inflation and

Table 2.3

Developments in nominal aggregate farm incomes[1]

	Annual change in nominal incomes (%)		
	1978/1977	1979/1978	1980/1979
Germany	0.8	-13.2	-1.7
Netherlands	1.5	- 6.8	2.0
France	9.3	12.8	-4.5
UK	6.3	7.1	7.0
Denmark	11.3	-6.3	-5.5
Ireland	11.9	-12.3	-6.6

1. Net value added at factor cost
Source: SOEC, Eurostat

Table 2.4

Developments in inflation, output and input prices

	Inflation		Output prices		Input prices	
	Annual change – %					
	1979/1978	1980/1979	1979/1978	1980/1979	1979/1978	1980/1979
Germany	4.1	5.5	1.7	2.5	6.8	6.8
Netherlands	4.3	6.9	1.7	2.4	7.0	6.5
France	10.7	13.6	7.2	5.6	9.8	14.8
UK	13.4	18.0	9.9	6.2	12.6	11.9
Denmark	9.6	12.3	1.8	11.1	7.6	12.1
Ireland	13.2	18.2	5.0	-2.7	12.6	14.5

Source: 'The Agricultural Situation in the Community 1980 Report' and SOEC

the trend in output and input prices. Germany and the Netherlands experienced relatively low inflation rates in both years and there is a remarkable degree of correspondence between the trend in consumer and agricultural input prices particularly in these countries but also in the other four Member States listed. At the same time, the development in output prices in the Netherlands and Germany generally proceeded at a slower pace than in the other countries, except Denmark in 1979 and Ireland in 1980, but in terms of the output/input price ratio over the two years Ireland and France experienced the greatest decline.

2.23 When taken in conjunction with inflation the effect of the decline in the price ratio in Ireland has been particularly severe in comparison to Germany and the Netherlands despite the slow increase in product prices in these countries. This then is the effective reason why farm incomes in Ireland have been probably more severely affected than in any other Member State by the combined influence of high inflation and input costs and low product prices, the latter having been aggravated by difficulties in the cattle sector.

2.24 For the marketing years 1979/1980 and 1980/1981 the increases granted in the Brussels price reviews were lower than average. The adjustment agreed in common prices for a number of commodities was as follows:

	Marketing year	
	1979/1980 %	1980/1981 %
Barley – intervention	1.5	4.5
Cattle – intervention liveweight	1.5	4.0
Milk – target	0	4.0
Butter – intervention	0	2.3
Skim powder – intervention	0	4.9

The average increase in 1979/1980 and 1980/1981 was 1.5 (excluding milk and milk products) and 4.5 per cent respectively but for some products in Ireland, such as beef, inter-year changes reflect more closely supply/demand market imbalances than those relating to changes in common price levels. For that reason it is more appropriate to consider a product such as milk which more closely reflects development in common prices and examine the direction and extent to which common price changes together with currency adjustments are reflected in national prices. The Netherlands is used for comparison with Ireland for the marketing year beginning June 1980.

Marketing year 1980/1981	Price increase in national currency %	June	July	Aug	Sept	Oct	Nov	Dec
Netherlands	3.5	4.1	3.5	3.7	2.8	2.8	1.0	-1.8
Ireland	3.5	-2.3	-2.5	-1.6	-0.2	0.5	1.9	3.8

2.25 As shown, while it was estimated that the intervention equivalent of the price of milk in Ireland could increase by about 3.5 per cent in the summer of 1980 after the price review, there was an actual decline of from 0.2 per cent to 2.5 per cent in ex-farm prices in the four key months after June. By contrast in the Netherlands the estimated increase was reckoned to be about 3.5 per cent, but prices to the dairy farmer increased in the period, corresponding approximately to that rate. While this contrast in outturn can be attributed to many factors, the higher inflation rate in Ireland, related as it is to higher processing costs (e.g., labour, fuel, finance) has been one of the primary factors in explaining the difference in prices.

Comparison with the Mid-Seventies

2.26 It is of some interest to bring together once again the similarities between the period 1974-1978 and 1978-1980 in respect of inflation and input costs and to note at the same time the differences with respect to the representative rates for the Irish Green Pound. As shown in the accompanying table the comparison clearly indicates that the similarity between the sub-periods is striking with regard to inflation and the rise in input costs. However, there was not over the latter period any corresponding adjustments in the reference rate which would compensate producers for the effects of high inflation and escalating input costs. This represented therefore a relatively new phenomenon in Irish agriculture which could not be sustained indefinitely without posing the most serious consequences for the industry and for farm incomes in particular.

Table 2.5

Comparison of trends in inflation and reference rates[(a)] for Ireland

	1974-1978	1978-1980
	Annual change %	
Inflation	15	16
Input prices	14	14
Adjustment in reference rate for Irish Green Pound	9	2

(a) Rounded

Output and Incomes in 1981

2.27 The estimated output of cattle including inventory change in 1980 was 1.64 m while the outturn for 1981 is expected to be of the order of 1.58 m. Of particular interest is the greatly reduced level of disposals (i.e., exports plus domestic consumption) in 1981 relative to 1980; these fell from 2.06 m to 1.57 m. Prices in the early part of the year had been about 20 per cent above the corresponding level in 1980 and this differential was maintained.

2.28 Milk production was unexpectedly higher in the early months of the year despite reduced cow numbers. However, weather conditions deteriorated sharply in May and June and annual supplies for manufacturing purposes declined by about 1 per cent. Milk prices were about 14 per cent higher than in 1980. There was some increase in the output of sheep and lambs and prices were significantly higher, but pig production declined by 5 to 6 per cent. Pig prices, however, were about 14 per cent higher than in 1980 and numbers were increasing slowly.

2.29 There was a small decline in the area under cereals comprised of a decline in wheat, especially spring wheat, and a slight increase in feed barley. Favourable planting conditions in Spring had been more than negated by adverse climatic conditions in May and June and the cereals sector just about maintained its previous year's level. There was a fall in the potato acreage, and the campaign for an increased acreage of sugar beet by the Irish Sugar Company evoked a good response.

2.30 The output price index increased by about 19 per cent in 1981 largely originating in the livestock and livestock products sectors. Input costs increased at a slower pace varying from about 10 per cent for feedingstuffs to 30 per cent for farm fuels. There was a small increase in the consumption of fertiliser despite the decline in cattle numbers, and there was a similar change in the consumption of other inputs. Having regard to the expected movements outlined in the price and volume components of output, farm materials and expenses, it is estimated that the value of gross agricultural output increased by about 14 per cent in 1981, but volume could be down by about 2 per cent (Table 2.6). The value of net output increased by approximately 13 per cent, but volume declined by about 5 per cent.

2.31 When other items of expenditure including rates, depreciation, fuel and wages are deducted from net output, income from self-employment is estimated to increase about 18 per cent which represents a small

Table 2.6

Aggregate output and incomes and price and volume indices

	1975	1976	1977	1978	1979	1980	1981	Change 1980-'81 %
Gross output (IR£m)	859	1,023	1,366	1,593	1,677	1,666	1,893	14
Net output (IR£m)	662	761	1,024	1,178	1,151	1,163	1,315	13
Income from self-employment (IR£m)	477	536	744	835	734	672	792	18
Output price index	100	126	154	174	184	179	213	19
Input price index	100	116	141	147	165	189	217	15
Index volume of gross output	100	96	105	112	111	111	109	-2
Index volume of net output	100	90	99	101	91	98	93	-5

Source: CSO and authors' estimates

decline in real terms. While the increase realised in the annual EEC price review and through devaluation of the reference rate for the Irish green pound was slightly more than sufficient to compensate for the rise in farm input costs, the rise in farm incomes can also be attributed to special measures or concessions from both domestic and Community sources. The former mainly includes rates relief, increase in headage payments and temporary suspension of the disease eradication levies. The special package of measures for Irish agriculture agreed in Brussels in April 1981, included incentives to increase lime consumption and silage production, to aid livestock performance and progeny testing programmes and to subsidise the use of A.I for beef production. Aid is also provided towards the cost of the disease eradication schemes and the suckler cow scheme. The total cost of the special package will be IR£51 m over two years of which the EEC will contribute IR£31 m. Some further domestic measures were also announced, but their impact on output and incomes in 1981 was marginal.

Outlook Beyond 1981

2.32 The outcome of the 1981 EEC farm price review resulted in an average increase in common prices of about 9.6 per cent and in national prices of approximately 11.5 per cent. This represents the largest general increase expressed in national currencies since 1974 and was only marginally behind the rate of Community inflation in the previous year. The increase in common prices was enhanced by the realignment of EMS currencies which allowed scope for green currency devaluation in 8 out of 10 countries and also reduced pressure on the United Kingdom and West Germany to revalue their green currencies. While the agree-

ment reached on prices may be considered well in excess of that anticipated in advance of the publication of price proposals it was due in part to the imminence of the French elections, but mainly to the considerable decline in farm incomes.

2.33 While there were earlier indications that the increase in EEC price levels in 1982/1983 might not be as large or as open-ended as in 1981/1982, later indications were more optimistic. The budgetary situation is now somewhat healthier and expenditure under the Guarantee Section of FEOGA is increasing less rapidly than the Community's potential own resources.[13] This is most striking in the dairy sector. However, short of currency adjustments, it is not expected that common prices will increase by more than 10 to 12 per cent in 1982/1983.

2.34 With regard to input costs there are some indications that the pace of increase may be moderating somewhat. World prices for some fertilisers and feed ingredients are tending to be sluggish and the futures' markets into late autumn and winter tended to suggest little upward pressure on prices. Furthermore, domestic demand for these inputs is unlikely to be buoyant. Additionally, the relentlessly upward direction of energy costs seems to be slowing down although actual fuel and oil costs here in Ireland have been strongly influenced by fluctuating exchange rates. On the assumption of current exchange rates being approximately maintained the rate of increase in the agricultural input price index should be somewhat less in 1982, and probably in 1983 also, than in 1981.

2.35 The generally downward slide in the volume of gross agricultural output continued into 1981, but a moderate expansion is envisaged into 1982. This is due in particular to the diminishing influence of the disease eradication programme on cattle numbers and to the expected impact of the various livestock headage payments and subsidies on the cattle population. Nevertheless, unless there are unusually favourable production conditions, the increase in output may not be very different from the annual increase of 3.2 per cent recorded in the 'seventies. With respect to farm incomes it should be noted, however, that the effect of non-price factors, especially in the category of subsidies not related to sales (from both domestic and Community sources), will exert a growing influence in the short term. The extent of these measures are outlined in Chapter 4. It is expected that they will have a positive

[13]Reflections on the Common Agricultural Policy, Comm (80) 800 Brussels – December 1980, and Commission Report on the Mandate Comm (81) 300 Luxemburg – June 1981.

effect on incomes, which might improve somewhat in real terms, assisted by a slight improvement also in the output/input price index.

2.36 Given the assumptions implied in the scenario for 1982, it would appear as if agricultural incomes might increase by about 25 per cent in 1982 over the level realised in 1981. The attainment of a reasonable increase in net output could be enhanced by a continuing parsimony in the use of farm materials while as mentioned earlier increased subsidies will go some way towards dampening the effects of higher input costs. Nevertheless, it is not going to be an easy task to re-create the conditions for expansion which were such a feature of the period 1975-1978. Indeed, the drive and commitment to re-activate growth and expansion may be impaired by the realisation that the effort required to effect a given improvement in living standards will be greater in the coming years. Finally, it seems as if the severity and duration of the recession which beset Irish agriculture may not have been recognised soon enough so that counter measures could have been taken to arrest the downward trend in performance and incomes.

CHAPTER THREE

FARM INCOMES: MEASUREMENT AND COMPARABILITY

Introduction

3.1 Before one can compare farm income with other incomes, it is important to realise that an appropriate measure of farm income for such a comparison is not easily determined with available statistical information. Income from farming and farm incomes must be distinguished from each other. In the first section of this chapter available measures of income from farming and of farm incomes are discussed. In any discussion on farm income relative to other incomes it is important to know why one would expect incomes in different occupations to differ from each other. This is discussed in the second section, and in Appendix B. In the final section some criteria that could be used in determining the appropriate level of farmers' incomes are examined. Two main criteria are included in this examination; an opportunity cost criterion and a 'social equity' criterion.

MEASUREMENT OF FARMERS' INCOMES

Purpose of Measuring Income

3.2 The level of farm incomes relative to non-farm incomes is of interest to policy makers because of their concern with the comparative welfare of persons working in different sectors of the economy. Data on incomes give a measure of welfare, albeit incomplete. Information on comparative incomes also gives some indication of the degree to which resources are efficiently allocated in the economy. If comparable resources are earning much less in one sector than another then, in theory, output could be increased by reallocating resources to the more productive sector. It is assumed here that the main interest in the measurement of farmers' incomes is for welfare comparisons. Appendix A gives a brief discussion on what an income measure, which could be used as a measure of economic welfare, should include.

Irish Statistical Data for Measuring Comparative Economic Welfare of Farmers

3.3 As mentioned in Chapter 2, there are two main sources of annual

data which can be used to measure the economic welfare of farmers; the aggregate national accounts for income from self-employment and other trading income (in farming) and the Farm Management Survey of An Foras Talúntais. A third source, a survey of expenditure by all households including farm households is available less frequently. The most recent data available for expenditure by farm households are for 1973. The aggregate national income data and the farm survey data have deficiencies both as measures of the incomes of farm households and as measures of the economic welfare of these households.

Aggregate National Accounts Measure of Farm Incomes

3.4 The measurement of income from self-employment and other trading income has been discussed in Chapter 2 and elsewhere.[1, 2] The discussion will not be repeated here.

Adequacy of the National Accounts Measure of Farmers' Income

3.5 Income from self-employment and other trading income is deficient both as a measure of the income earned from farming by farmers and as a measure of farmers' total income. In so far as income from farming is concerned, it excludes two major items of cost; interest payments on funds borrowed for agricultural production and depreciation on buildings. It is not a measure of farm cash income, but a measure of the amount available to pay farm family workers for their labour and management and for payment of interest on own and borrowed capital. If one is interested in how much the farm family has to spend out of its income from farming after laying aside funds for keeping its buildings capital stock intact, then interest payments and building depreciation should be subtracted from the national accounts figure for income from self-employment and other trading income.

3.6 There is a good deal of controversy on how much interest farmers are paying on borrowing made for agricultural production purposes. This controversy arises because of the difficulty of separating borrowing for consumption purposes from borrowing for production purposes.[3] Sheehy[4] gave a figure of IR£242 m for interest on borrowed funds and building depreciation in 1980.

[1] O'Connor, R., 1968. Observations on the Measurement and Distribution of Irish Farm Income. Irish Journal of Agricultural Economics and Rural Sociology, Vol. 1, No. 2, pp. 139-164.

[2] Embleton, F.A., 1979. The Development of Irish Agricultural Statistics: Presidential Address, Agricultural Economics Society of Ireland.

[3] Interest on borrowing for personal consumption should not be included as a cost to agriculture since (a) it is related to the personal consumption preferences of farm families, (b) it is not a cost of the farm business as such, (c) it is treated as consumption for other groups.

[4] Sheehy, S. 1980. Opportunity for Irish Agriculture. Agricultural Record, September 1980, pp. 9-12.

3.7 Measures of annual investment in buildings are available with which one could estimate the value of the capital stock for buildings; but such annual estimates have not been made for Ireland. Without a measure of the capital stock in farm buildings and the age structure of that stock, it is difficult to arrive at figures for building depreciation which are not arbitrary.

3.8 Interest payments present similar problems. Figures for total loans outstanding to agriculture can be obtained from the ACC and the banks. Total interest paid on loans is not published. Data for merchant credit and hire purchase credit are not available. Without precise knowledge of the terms and structure of outstanding loans any figures on interest payments by farmers are very rough estimates of actual interest paid. For example, in February 1981, loans outstanding from banks were IR£787.2 m and from ACC IR£345 m[5] for a total of IR£1,132 m. If it is assumed that farmers are all category AA borrowers and are given preferred overdraft rates, interest rates charges would have varied from 16 per cent to 18¼ per cent for ordinary borrowings and 12¾ per cent for World Bank livestock loans. To estimate interest paid by farmers on loans used for farm investment purposes, not alone would one need the proportion of their loans outstanding which were used for these purposes, but one would also need to know the term structure of their borrowings. If all farmers' borrowings from the banks and ACC were used to finance farm investment, their interest payments in 1980 would have been in the region of IR£190 m. This figure does not include interest on borrowing from other sources (e.g., finance companies, merchant credit etc.).

3.9 An alternative source of data on interest payments is the Farm Management Survey. These data are collected from a random sample of landholders.[6] Based on information collected in this survey it is estimated that farmers paid IR£82.6 m interest on borrowings from all sources for agricultural production purposes in 1980 and the loans outstanding for these purposes at the end of 1980 amounted to IR£512 m. These figures are considerably below other estimates. The Farm Management Survey's estimate of interest payments only includes interest on borrowings for farm related purposes. Likewise the estimates of loans outstanding is for loans used for productive purposes (as opposed to loans for consumption purposes). This may explain some of the differences between the estimates in the Farm Management Survey and other estimates. It is clear that this is an area where more detailed information is required in order to reconcile the conflicting estimates on interest payments.[7]

[5]The ACC figure is for loans outstanding at the end of 1980. A total of IR£422.3 m was outstanding for the ACC for all purposes (farmers, agribusiness, hire purchase). It is estimated that about IR£345 m of this is outstanding to farmers. (Higgins, J., Financing Farm Development, paper delivered to Agricultural Science Association, September 1981).

[6]The sampling frame used is the Census of Agriculture. This is a census of landholders. All landholders are not necessarily farmers and all farmers are not necessarily landholders.

3.10 Some would argue that value of the change in livestock numbers should not be included as part of output and thereby as part of income from self-employment. While the value of an increase in stock is income that is not realized, it is produced but not cashed in the year of production. However, it seems justified to include, as part of output for a particular year, everything that is produced in that year even if it is not all sold.

3.11 Because of the above considerations, income from self-employment and other trading income (as measured in the national accounts) is not a good measure of the amount of farm income received by farm families for their labour and management. It cannot then be a good measure of the welfare of farmers' families. It is also an inadequate measure of their total income from all sources. Farm families receive income from sources other than farming. These sources include income from off-farm jobs, social welfare payments, interest on savings, dividends and emigrants' remittances. Income from self-employment and other trading income, as measured in the national accounts, does not take account of these sources of income.

Social Welfare Payments to Farm Families

3.12 Farm families receive welfare payments in the form of unemployment assistance and various pensions. In the twelve Western counties (designated areas) farmers are entitled to unemployment assistance (farmers' dole) if their land valuation is under IR£20, regardless of their level of income from farming (if they have non-farm sources of income this is taken into account in determining the amount of assistance paid out). For farmers with land valuations of over IR£20 in the designated areas, and for all farmers outside of these areas, unemployment assistance is paid on the basis of a factual assessment of their means.[8] In 1980 approximately IR£22.3 m was paid out to 21,500 of these farmers. Most of them would have been earning low incomes from farming. They received on average about IR£20 per family per week in 1980 from

[7]An Foras Talúntais have been paying particular attention to improving the quality and accuracy of information relating to interest on borrowings for farms in the Farm Management Survey.

[8]More details on the farmers' dole and other social welfare payments to farmers are given in "Relate": Information Bulletin of the National Social Service Council, Vol. 7, No. 11, 1980.

unemployment assistance. No information is available on unemployment benefits paid to farmers. These are farmers who were in insured employment and became unemployed.

Income from Non-Farm Jobs

3.13 This is probably the largest source of non-farm income for landholders. In a recent survey by an Foras Talúntais,[9] it was estimated that 25 per cent of all landholders over five acres had off-farm employment; 34 per cent of those between five and thirty acres had off-farm employment. These estimates are similar to those obtained from a survey conducted by the Department of Agriculture in 1973. They found that 25.6 per cent of landholders over five acres had off-farm employment; 68.6 per cent of those with off-farm jobs worked 40 or more weeks at those jobs. This would imply that for most of these landholders their principal occupation is not farming. In the survey, by An Foras Talúntais, 72 per cent of those who had off-farm jobs stated that their off-farm occupation was their principal occupation. These results imply that not all landholders have farming as their principal occupation. The agricultural output generated by those whose principal occupation is not farming is probably small but further analysis is necessary to see if it offsets the income from off-farm jobs of those whose principal occupation is farming. If it did, income from off-farm jobs in aggregate farm income calculations could be ignored. If farm families are considered the appropriate unit in an analysis of farm income, then the off-farm income earned by other members of the farm household should be taken into account. There is no information available on this.

3.14 Other sources of income to farmers are pensions, emigrants' remittances, interest from savings and dividends. No direct information on these sources of income to farmers is available.

3.15 From the discussion so far, it is clear that income from self-employment and other trading income, as measured in the national accounts is not an adequate measure of the income of farmers. It is also an inadequate measure of farmers' welfare since any measure of income which is not a good measure of annual income cannot be a good measure of welfare.

Number of Persons Engaged in Farming

3.16 Apart from the problem of getting accurate estimates of the family labour and management income arising in agriculture, there is the additional problem of estimating the number of family members

[9]This survey was carried out in 1978 and refers to the calendar year 1977.

who generate that income. Estimates of male family workers and other male workers (presumably hired workers) are published annually. The Census of Population provides figures of males and females who state that their principal occupation is agriculture. Annual figures are published in the Review and Outlook of the number of persons at work in agriculture, forestry and fishing in April. The latest estimate for the number of males engaged in farm work is 207,300 of which 179,300 are family workers (June 1980). The number of females engaged in farm occupations was 24,700 in 1971. The 1979 Labour Force Survey gives a figure of 19,900 female agricultural workers, of which 1,200 are employees (presumably hired). From these figures a rough estimate of the number of family workers, whose principal occupation is farming, is about 198,000. The problem with these estimates is that they give no indication of the quantity or quality of time that family workers spend at farming activities. Farm Management Survey estimates of the population of family labour units[10] in 1980 is 218,000.

3.17 The EEC Farm Structures Survey is another source of information on the labour input on farms. In this survey, both the number of persons contributing to farm work and the amount of work they contributed, in terms of annual work units, are estimated.[11]

3.18 The data for this survey, given in Table 3.1 present a very different picture from that of the other sources. It shows that 441,400 family members contribute 291,800 annual work units on the farm. This is in sharp contrast to the figure of 198,000 whose main occupation is farming, obtained from the males engaged in farm work series and the Labour Force Survey, and 218,000 family labour units from the Farm Management Survey. This highlights the need for more detailed investigations of the labour input on farms.

3.19 In conclusion, it is difficult to know which of the available figures should be used as a denominator in order to arrive at a figure of income from self-employment and other trading incomes per family worker in

[10]In the Farm Management Survey, one labour unit is a male over 18 working full-time on the farm. For males under 18 and females the adult male equivalents are:

Males and females 14-16 years	= half
Females over 16 years	= two-thirds
Males 16-18 years	= three-quarters

[11]Persons working a minimum of 2,200 hours per annum on their holding were considered as working full-time and were treated as one annual work unit (AWU). The activity of part-time labour was converted proportionately into AWU: for four categories of part-time labour the average value for each category was adopted: 0.125 AWU (for persons having a work time of 0- 25 per cent of the annual time worked by a person employed full time); 0.375 AWU (25 - 50 per cent); 0.625 AWU (50- 75 per cent) and 0.87 AWU (75- 100 per cent).

farming. There are additional difficulties of not knowing how many farmers there are as opposed to landholders. This was highlighted in the discussion on part-time farming. These difficulties with aggregate data suggest that micro data may be more suited for the estimation of farmers' incomes.

Table 3.1

Labour inputs of family and non-family workers on farms in 1975

	Actual number	Number of annual work units
Landholders (Manager)	227,300	174,000
Landholders' spouses	89,900	47,000
Other members of the holders' families	124,200	70,800
Total family labour	441,400	291,800
Non-family labour regularly employed	32,500	26,000
Non-family labour not regularly employed	–	6,800

Source: *Eurostat* Community Survey of the Structure of Agricultural Holdings, Vol 4, p. 185.

Measures of Farm Income from Accounts Data

3.20 An Foras Taluntais carries out an annual Farm Management Survey on a random sample of farms. The farms participating keep detailed accounts of the outputs produced and inputs used on their farms. From this information, measures of family farm income are generated. Farm income estimates from the Farm Management Survey are superior in many ways to those derived from national accounts. They do not have the problems with interest payments and building depreciation which were discussed earlier. No information on the distribution of farm income can be obtained from the national accounts whereas the Farm Management Survey is ideal for this purpose.

3.21 While the Farm Management Survey is a very good source of information on the farm income of different types of farms, it suffers the same deficiencies as the national accounts with regard to measuring the total income of farm families. It does not contain information on non-farm sources of income. This could be remedied if the scope of the survey was extended to include questions on these other sources of income. The price which one might pay for this extension is a reduction in the number of landholders co-operating. Subject to the limitations mentioned above, 'family farm income' is the best measure of farm families' farm income which can be obtained from the Farm Management Survey. It is a measure of the return to family labour and management and to

owned land and capital. It is still an inadequate measure of the economic welfare of farm families as it excludes other sources of income.

Level and Distribution of Farm Income Based on Farm Management Survey Data

3.22 While the absolute level of farm income is of interest when farm incomes are being compared with non-farm incomes, the distribution of farm income among the farming population is also of interest. Tables 3.2 and 3.3 give information on the distribution of farm income by size category in 1980 for all farms and for full-time farms. Over 73 per cent of all farms had family farm incomes[12] of less than IR£3,000 in 1980. Fifty-five per cent of those were on farms of less than 30 acres, so it could be expected that they have other sources of income (unemployment assistance, part-time farming etc.). Only 13.8 per cent of all farms had family farm incomes in excess of IR£5,000; over 94 per cent of those have holdings in excess of 50 acres.

Table 3.2

Distribution of all farms by farm size and family farm income per farm (1980)

	Family farm income (IR£)					
Size (acres)	<1,000	1,000-3,000	3,000-5,000	5,000-8,000	Over 8,000	All income group
5- 30	28.1	12.3	0.9	0.1	0	41.5
30- 50	6.7	11.2	4.9	0.6	0.3	23.5
50-100	4.4	6.4	5.4	4.4	2.4	22.9
Over 100	2.2	1.8	1.9	2.5	3.7	12.1
All sizes	41.4	31.9	12.9	7.4	6.4	100.0

Source: Farm Management Survey (1980), An Foras Talúntais, 1981
Note: Figures do not add up because of rounding

3.23 Full-time farms are less likely to have family members working off the farm. Families on these farms are more dependent on farming for their incomes than are families on all farms. From Table 3.3 it can be seen that 53.4 per cent of full-time farms had farm incomes of less than IR£3,000 in 1980. Over 26 per cent had family farm incomes of over IR£5,000; over 95 per cent of those had farms in excess of 50 acres. These tables indicate two main points. Firstly, that there is a wide dispersion of family farm incomes across farm size, with the smaller sized farms having very low incomes from farming. Secondly, only a small percentage of farmers are earning relatively high incomes

[12]Family farm income is gross output less net expenses. It represents the total return to the family labour, management and capital investment in the farm business.

(over IR£8,000) from farming. When the 1980 results are compared with those for 1978 and 1979 the evidence indicates that the position has worsened for farm families, with more farmers getting into the lower end of the income distribution scale.

Table 3.3

Distribution of full-time farms* by farm size and family farm income per farm (1980)

Size (acres)	Family farm income (IR£) <1,000	1,000-3,000	3,000-5,000	5,000-8,000	Over 8,000	All income group
5- 30	7.1	9.9	0.4	0	0	17.4
30- 50	5.1	9.7	7.5	0.9	0.4	23.5
50-100	5.2	9.4	9.1	8.0	4.8	36.6
Over 100	3.9	3.1	3.3	4.8	7.4	22.6
All sizes	21.3	32.1	20.5	13.6	12.5	100.0

Sources: Farm Management Survey (1980), An Foras Talúntais, 1981
*Full-time farms are defined as those that had 0.9 or more labour units working on the farm (see Footnote 13 for the definition of labour units).

Household Budget Survey Data

3.24 National household budget surveys covering all areas are carried out periodically. The last full survey, for which data on agricultural households are available, was in 1973.[13] The household budget survey has information on income as well as expenditure, but the reliability of the income data is sometimes questioned. For the larger farms, income data are generated from farm accounts while for smaller farms income data are imputed from livestock numbers and acreage of crops. Measures of household expenditure are a better indicator of the economic welfare of households than measures of annual income. The household budget survey is also a good data source for comparing the economic welfare of farm and non-farm households. It will be used in the next paragraphs for that purpose. Table 3.4 gives some indications of the dependence of farms on income from farming (in 1973).

3.25 For all farmers' households on average, 70 per cent of their total gross income is obtained from farming with 30 per cent from other sources. It is estimated that by 1980, all farmers' households on average, got 60 per cent of their income from farming and 40 per cent from

[13]A survey which includes farm households was carried out in 1980, but no results are available from this at present.

other sources.[14] Household budget survey data indicate that income from farming should be increased by over 40 per cent in 1973 and by an estimated 66 per cent in 1980 to get a true picture of farm families' total income.

Table 3.4

Percentage distribution of farmers' incomes by source of income for different farm size groups (1973)

Source of Income	Acres <30 %	30-50 %	50-100 %	Over 100 %	All sizes %
Farming	43.5	67.7	77.3	87.0	70.1
Wage and non-farm self-employed work	25.1	16.7	14.2	8.4	15.7
Other sources	31.4	15.6	8.5	4.6	14.2
All sources	100	100	100	100	100

Source: Household Budget Survey, Vol. 3, 1973

3.26 It is of interest to note that in the United States, where average per capita disposal income (from all sources) of farmers is almost the same as average per capita non-farm disposable income in recent years, that for most of these years farmers receive more income from non-farm sources than from farming.[15] The importance of off-farm employment as well as other non-farm sources of income for improving the income of farm people must therefore be stressed. These results are very revealing and it will be of considerable interest to see if the estimates made here for 1980 will be borne out when the results of the household budget for that year are published.

3.27 Table 3.4 also shows that smaller farms (under 30 acres) got a higher proportion of their income from non-farm sources (56.5 per cent) than from farming (43.5 per cent) in 1973. Table 3.5 shows that expenditure on bigger farms is higher than on smaller farms but they have somewhat larger household sizes.

[14]These figures were obtained by applying to the 1973 values of the various components of income reported in the Household Budget Survey (Vol. 4, p. 174), rates of increases for each component. For the social welfare components, the rates of increase in benefits were used. For farm income, the rate of increase was computed from Farm Management Survey data. For wage earnings and non-farm self-employment earnings the rate of increase in manufacturing earnings was used. For property income, the consumer price index for housing was used. For investment income, the rate of increase in yields of government bonds was used.

[15]Agricultural Statistics, 1980, Table 655, U.S. Department of Agriculture.

Table 3.5

Average expenditure of farm households in different farm size groups as a percentage of the average expenditure by all farm households

	<30 acres	30-50 acres	50-100 acres	Over 100 acres	All farm households
Within group average expenditure divided by average expenditure for all farm households (x 100)	78%	93%	117%	138%	100%
Number of adult equivalent*	3.0	3.54	3.59	3.91	3.36

Source: Household Budget Survey, Vol. 4.

*Adult equivalents were obtained by converting average number of persons in each size group, using the following conversion: Males and Females under 14 = 0.52 adults, Males over 14 = 1 adult, females over 14 = 0.9 adults. This is roughly equivalent to the so-called Amsterdam Scale.[16]

[16]See Deaton, A. and Muellbauer, J., 1980. Economics and Consumer Behaviour (p. 193). Cambridge University Press.

Trends in Farm Income Relative to Non-Farm Incomes

3.28 In Chapter Two, it was shown that real per capita income arising in agriculture increased rapidly from 1974 to 1978 and has been declining since (see Table 2.1). Using average family farm income per family labour unit on farms, and income from self-employment and other trading income for family workers on farms, as a measure of per capita farm income, some trends in farm and non-farm incomes are examined.

3.29 Table 3.6 makes a comparison between farm incomes of family farm workers' and earnings of workers in transportable goods industries.[17] This table shows that, as a group, farm families' earnings per family labour unit were about 80 per cent of the gross earnings of transportable goods industry workers in the 1960s. Between 1970 and 1980 the relationship between these earnings was relatively unstable. Farm earnings exceeded industrial earnings in 1973, 1977 and 1978 and were just under them in 1976. Since 1978 there has been an actual decline in the average money income from farming of farm families, with the result that in 1980 average gross farm family income per family labour unit was 53 per cent of average gross earnings of workers in the transportable goods industries. Farm family income per family labour unit was back at its 1976 level in money terms. It is estimated that in 1981 the relative position of farmers' income has slightly improved (55 per cent).

3.30 The figures reported for transportable goods workers take no account of the fact that some of the workers could be out of work for a period during the year. Both earnings series are measures of gross earnings and not of take home pay. It is generally accepted that industrial workers pay more tax and social welfare payments out of their income than farm family workers pay on farm incomes, so the gross earnings of industrial workers would have to be adjusted downwards relative to those of farmers in order to make comparisons of their disposable incomes. In the tax year 1977/1978, PAYE workers who earned between IR£3,000 and IR£3,500 gross income (the income category into which industrial workers fell in 1977) paid 16.5 per cent of their gross earnings in income tax.[18] This would imply that industrial workers' disposable income (without deductions for social welfare payments) in 1977 was IR£2,700 which is 21 per cent below the disposable income of farm family workers in that year.

[17]This is not to imply that these two groups are comparable in terms of skills etc. There are good data available on earnings of the transportable goods industries workers and they are a group to which farmers are sometimes compared. There is more discussion on the basis for such a comparison later in this chapter.

[18]This figure was derived from data in the 56th Annual Report of the Revenue Commissioners (Table 88), Stationery Office, 1980.

Table 3.6

Earnings of farm family labour on their farms and earnings of workers in transportable goods industries

	Family farm income per family labour unit (IR£)[a]	Average annual earnings of transportable goods industries workers (IR£)[b]	Ratio of farm to industrial earnings col 1 ÷ col 2
1960	330	395	0.84
1961	375	417	0.83
1962	375	463	0.81
1963	375	581	0.78
1964	454	542	0.84
1965	474	561	0.84
1966	454	611	0.74
1967	514	656	0.78
1968	609	717	0.85
1969	640	805	0.79
1970	713	923	0.77
1971	804	1,074	0.75
1972	1,129	1,235	0.91
1973	1,656	1,485	1.12
1974	1,266	1,774	0.71
1975	1,800	2,306	0.78
1976	2,666	2,758	0.97
1977	3,421	3,238	1.06
1978	3,872	3,710	1.04
1979	3,164	4,278	0.74
1980	2,674	5,055	0.53
1981[c]	3,155	5,763	0.55

[a]For 1960-1971 inclusive, these figures were obtained by dividing income from self-employment and other trading income, as measured in the national accounts by number of family workers in agriculture. Number of family workers was obtained by adding number of male family workers in June of each year to an estimate of the number of female family workers which was based on Census of Population data. For 1972-1980, family farm income per family labour unit was based on Farm Management Survey data.

[b]These figures were obtained by taking the average weekly earnings of workers in transportable goods industries from the quarterly data published in the Irish Statistical Bulletin, and converting them to an annual figure (multiplying by 52).

[c]Estimated.

3.31 In 1980, married workers with one child, earning IR£5,000 (the approximate average industrial wage in that year), would pay 11.2 per cent of their gross income in income tax (assuming no interest deductions). Farmers paid only 4 per cent of their income in income tax in 1980. Even taking into account the fact that industrial workers pay a higher proportion of their earnings in tax, the difference between farmers' labour incomes and the industrial workers' income in 1980 is large.

3.32 A further point to be made in this comparison is that no adjustment is made for hours worked by persons in the two sectors. Hours worked by industrial workers have been fairly static in the 1970s. No information is available for hours worked by farm family workers.

Comparison of Farm and Non-Farm Household Economic Welfare in 1973

3.33 The household budget data are used for comparing the economic welfare of farm and non-farm households. For the purpose of these comparisons, urban households will be treated as non-farm. The best way to compare farm households' welfare with non-farm household welfare is to compare consumption expenditure of households that have similar composition. This is done in Table 3.7. It can be seen from this table that expenditure is positively related to size of household for both urban and rural farm households. Consumption expenditure of rural farm households is on average only 80 per cent of that of urban households. Rural farm household consumption is below that of urban households for all types of households. It is particularly low for 2, 3 and 4 adult households (69 per cent—71 per cent). This may reflect a different age structure of rural households with only adults present, and it may also reflect a considerable under-employment of labour leading to low per capita incomes in these households.

3.34 A problem with comparisons based on household budget expenditure data is they do not allow for differences in costs of goods and services to farm and urban households. The most glaring example of this is in housing. In urban areas the average expenditure on housing was IR£4.1 per week (9 per cent of total expenditure) and for farm households it was IR£1 per week (3 per cent of total expenditure). This difference is mainly due to the fact that most farmers own their houses outright. The private costs associated with other services may cost farm households more because these services may not be available locally (e.g., transport, medical services, education). Overall it can be concluded that economic welfare, as measured by consumption expenditure of farm households, was below that of urban households in 1973. No information is available on savings. If farm family preferences are such that they save a higher proportion of their income than non-farm households, then consumption expenditure would under-value the welfare of farm households relative to non-farm households.

3.35 Another item of consumption which should be taken into account in making welfare comparisons is benefit in kind received by households. This includes such items as free education, medical services and housing. Table 3.8 gives some information on this as well as other income related items for 1973. In interpreting the data from this table it is important to keep the warning of the Central Statistics Office in mind; namely,

Table 3.7

Ratio of rural farm to urban consumption expenditure by household composition

		1 adult	2 adults	2 adults with 1 child	2 adults with 2 children	2 adults with 3 children	2 adults with 4 or more children	3 adults	3 adults with children	4 adults	4 adults with children	Other households with children	Other households without children	All
Average weekly expenditure by urban household	£	14.2	31.9	41.8	50.1	46.8	47.9	46.1	53.1	64.6	62.8	74.0	83.7	45.3
Average weekly expenditure by rural farm household	£	11.1	21.9	34.6	36.9	38.2	41.2	31.7	44.2	45.6	46.1	68.0	68.7	36.1
Ratio of rural farm to urban expenditure		.78	.69	.83	.74	.82	.86	.69	.83	.71	.73	.92	.82	.80

Source: Household Budget Survey, Vol. 3 and 4

Table 3.8

Cash and non-cash income, direct and indirect taxes of farm households and non-farm households in 1973

Weekly Payments (£)		Rural Farm Household	Professional, Managerial & Employers	Other Salaried Employee, Intermediate Non-manual Worker	Other non-Manual Worker	Skilled Manual Worker	Semi-skilled Unskilled Manual Worker
(a) Direct Income	£	35.771	63.167	43.035	34.730	38.392	30.248
(b) Cash benefits	£	4.334	1.607	2.861	4.059	3.502	6.006
(c) Estimated non-cash benefits	£	5.111	5.237	5.039	6.442	7.141	6.970
(d) Total gross income and non-cash benefits (a+b+c)	£	45.216	70.011	50.935	45.231	49.035	43.224
(e) Direct taxes	£	1.142	9.334	5.686	4.420	5.130	4.210
(f) Indirect taxes	£	6.147	11.280	8.581	7.974	9.001	7.293
(g) Total taxes (e+f)	£	7.289	20.614	14.267	12.394	14.131	11.502
(h) Final income less taxes (d–g)	£	37.927	49.397	36.668	32.837	34.904	31.722
No. of persons at work		1.492	1.232	1.273	1.371	1.357	1.330
Total persons		4.005	4.169	3.875	4.422	4.661	4.558

Notes: (a) Earned income and income from investments and property.
(b) Children's allowance, social welfare pensions, unemployment benefits and assistance, other cash benefits.
(c) Value of 'free' medical education, housing and other benefits in kind.
(d) Income tax and social insurance contributions.
(e) Rates, motor taxation, value added tax, excise duties and licences.

Source: Redistributive effect of State taxes and benefits on household income in 1973, Table 2c and 7. The Stationery Office, 1980.

that income data are less reliable than consumption data in the household budget survey. From the table it can be seen that on average farm households had more persons at work than other households and somewhat fewer persons in their households. The final income of farm households, which includes cash and non-cash benefits and has taxes deducted, compares very favourably with other households; in fact it is greater than that of all other households except those headed by persons in professional, managerial or employer occupations. This is mainly due to the fact that farmers paid much less taxes than other households. Unfortunately, it is impossible to make similar comparisons for 1980 because of lack of data. This table should further highlight the fact that at the empirical level, comparing farm and non-farm income or expenditure with a view to measuring comparative welfare is not a simple matter.

CRITERIA FOR INCOME COMPARISONS

3.36 In comparing incomes of different groups with a view to suggesting appropriate levels of income, two main criteria can be used; an economic efficiency criterion and a social equity criterion. The application of these two criteria are discussed in this section.

Economic Efficiency Criterion

3.37 In economic terminology, income is the return to factors of production. In farming, where farms are operated by family labour, family farm income is the most commonly used income concept; this represents returns to family labour, management, owned capital and land. Our previous discussion highlighted the difficulty of getting adequate measures of this income from existing statistics. From an economic point of view, the returns to a factor of production are its opportunity cost; that is what it could earn in its next best alternative. The application of this criterion to the agricultural sector involves an examination of the returns which each factor used in the sector could earn outside of the sector. In the discussion that follows it is important to keep in mind that specialised resources could be earning high returns within a sector, as indicated by a high rental value for the use of these resources by users in the sector, and yet they might have a very low return to users outside of the sector (e.g., good tillage land). Such resources will be retained within the sector. There are three main resources in agriculture: land, labour and capital.

Land

3.38 Land has limited use outside agriculture, except in the vicinity of towns, so its opportunity costs, that is the cost of using it for agri-

cultural purposes as opposed to using it in its next best alternative use, is small. This is true despite the fact that land may command high rental value (marginal returns) for agricultural users. If all farmers tried to sell their land its price would fall close to zero.

Capital

3.39 Fixed capital in agriculture, such as buildings, has little use outside this sector so its return in some other sector is close to zero. Mobile capital such as tractors has limited use outside the agricultural sector, but in general its returns in other sectors is low. Livestock capital has a salvage value outside agriculture.

Labour

3.40 Farm labour is not a homogenous input. It consists of persons of different ages, sex and different levels of ability and skills. These differences influence the income earned from farming and may well have some effects on what farm labour could earn outside agriculture. Older, less well educated farmers would command very low returns for their labour outside farming, unless they possessed some specialised skills that were in demand outside the sector. Because of the fact that the specialised farming skills possessed by farmers and farm workers are very specific to the farm sector they are not easily transferable to the non-farm sector and will not earn much remuneration in the non-farm sector.[19] As far as the non-farm sector is concerned, most farmers presenting themselves for jobs would be treated as unskilled labour, unless they had skills other than their farming skills. The earnings which farm workers, who have no specialised non-farming skills, could immediately earn outside agriculture is that of unskilled workers.

3.41 Farmers with off-farm work experience and skills (which have not deteriorated) could expect to earn the wages being paid to persons with those skills if they could find a job off their farms. A question of relevance here is, should such farmers be given a return for their labour in farming which would equal what they would earn off the farm if they could find a job? From an economic efficiency point of view the answer is, not necessarily, for if they were they would have less of an incentive to transfer their labour out of agriculture which may be a desirable course of action. These mattters will be elaborated on further when the social equity criterion is discussed.

[19]The argument applies to other professions as well. A doctor could expect to earn much lower returns if he has to transfer his labour to a non-medical profession. Therefore, doctors tend to stay as doctors. The demand for their services relative to the supply of their services is such that they earn relatively high incomes.

3.42 For young workers about to embark on an agricultural occupation, their opportunity returns are the same as that of any other young worker of similar ability. Once a person is engaged in farming for a number of years his labour becomes a quasi-fixed factor of production and even if he could earn higher returns outside farming his social and other obligations may mean that he will continue farming. Furthermore, as age progresses, the less the economic incentive for retraining for another occupation.

Validity of Opportunity Cost Criterion

3.43 Using an opportunity cost criterion implies that the labour income per family labour unit of many farmers should be equivalent to the income of unskilled workers. If markets are functioning perfectly and if resources are allocated according to the opportunity cost criteria, output will be maximised and the final distribution of income will depend on the initial endowment of resources, hence the desirability of using such a criterion.

3.44 There are two reasons why an opportunity cost criterion might not be appropriate for determining the returns to resources. Firstly, the initial endowment of resources may be very unequal so that income will also be very unequal. This may be socially undesirable. Secondly, markets do not function perfectly. Farmers do not have full information on prices and technical conditions of production. There are rigidities in product and factor markets. There are barriers to entry into occupations which tend to give high rents to those already in these occupations. In many areas, if farmers wanted jobs outside farming many of them would not get jobs at the going wage rates for the jobs to which their skills were suited, because these rates are in part, institutionally determined and only in part market determined. Wage rigidities, in theory, lead to unemployment for non-landholders and under-employment for landholders. If wages were flexible downwards and other markets were competitive most economic models predict that all labour resources would earn their marginal value product (i.e., the value of their contribution to output). Persons doing the same kind of work would earn the same return for that work unless other forces were at work; for with perfect mobility no one would need to stay in a job that gave them a lower net return than some other job that required the same amount of skills and effort. Competitive market forces would equalize net returns.[20] The fact that many farmers may find it difficult to take their labour elsewhere, because of lack of job opportunities and barriers to mobility,

[20]Here 'net returns' refer to returns after adjustment for non-pecuniary returns. The nature of these are discussed in Appendix B.

and are thereby 'forced' to earn low returns in agriculture, justifies their seeking income support within agriculture. This leads to a criterion of social equity which will now be discussed.

Social Equity Criterion

3.45 If, as stated, markets do not or are not allowed to function, one may be forced to partially abandon economic criteria for determining appropriate levels of income and turn to social criteria. Social criteria must also be used if the economic system does not give returns to farmers which are considered adequate by policy makers. Social criteria almost by definition imply some consideration of equity. Once one enters the area of equity, subjective judgements play a major role. One could argue that in many areas of the economy decisions are made about rates of pay which have little to do with levels of productivity or other economic factors. When using a social equity criterion the criterion of opportunity cost could still be a guiding principle. Farmers could be guaranteed a return for their labour that equals the sort of return they could expect to earn in a competitive market with appropriate adjustments. In practice, it is hard to know what these returns would be, even if enough information were available about farm workers' skills to permit comparison with other groups of workers. Because if farmers could move freely into other occupations for which they have the skills, earnings in those occupations would fall if the earnings of farmers in farming were considerably below these non-farm earnings initially. Alternatively, one could use as a basis for income comparison groups in the economy which do work that is of a similar nature and degree of difficulty as farm work. One that comes to mind, are self-employed tradesmen. Their work requires managerial skills and physical effort which are also required in farming, but it would be very difficult to get data on the earnings of this group.

3.46 Farmers would argue that they should also be given some return for their land and capital. The problem associated with giving a return to these resources which, as was argued earlier, have little use outside the sector, is that the return tends to be capitalized into the value of the asset (particularly land). This drives up the value of the asset within the sector necessitating perhaps, even greater absolute support (if a certain percentage return on the current value of the asset is given). Apart from deciding what return to give to such assets, there is the additional problem of deciding what value to put on those assets; should it be their opportunity cost outside the sector, which is low, or their market value within the sector, which is high? If the assets are appreciating in value this capital appreciation should be treated as income and therefore part of the return to the asset. Under the social equity criterion it

is hard to justify basing income supports on the amount of assets owned (which is what imputing a return to assets would amount to) as this would automatically transfer income to those who had the largest endowment of resources initially.

3.47 Another basis for a social equity criterion might be the presumption that farmers make contributions to the economy for which they were not fully compensated by the current operation of the price system. In economic jargon the argument might be that the social benefits of agricultural production exceeded the private benefits accruing to farmers. It could be argued that the raw materials of agriculture contribute to job creation and that increased agricultural output improves our balance of payments. These beneficial effects would not, however, in themselves justify supporting farmers' incomes unless it could be shown that imperfections in the market place were denying farmers fair returns for their resources.

3.48 In a more dynamic context it could be argued that if farmers do not generate enough surplus income they will not be in a position to carry out investments necessary to expand output, so low farm income will lead to a stagnation in output. An additional issue is raised here concerning the rate of growth in farm income which brings forth a given expansion in output that makes the greatest contribution to job creation and to the balance of payments.[21] The extent to which increases in farm incomes are linked to increases in farm output has not been established empirically for Ireland. This is a topic that needs further research.

3.49 While 'social equity' type considerations as well as bargaining power play a role in determining levels of pay in other sectors, it is difficult to come up with a set of social equity rules that would guide the policy makers in determining appropriate levels of income for farmers. This is because, as stated previously, social equity considerations are value laden and are therefore as much related to people's perceptions of what is fair as to economic reality. Given these reservations, however, an attempt will be made to suggest a possible level of farm income which might be considered desirable.

[21] In addition one must look at the alternative uses to which funds used to support farm incomes could be put and see if employment and balance of payment objectives could be achieved more fully by using the funds in some of these alternative uses. This kind of analysis would apply to existing as well as new expenditure in all sectors.

Equalize Farm Labour Returns to Returns of Labour in Sectors to which Farm Labour Skills are Transferable

3.50 As mentioned previously, for most farmers the jobs available to them outside of farming are unskilled jobs. One such category is unskilled or semi-skilled building workers. In 1980 these workers earned an average weekly wage of IR£107.62 (working an average of 46.7 hours per week). If these workers were fully employed for the whole of 1980 then their gross earnings for these occupations would be IR£5,596. It is estimated that the unemployment rate among building workers is about 20 per cent.[22] If we assume that a building worker has a one in five chance of being unemployed or that he can expect to be employed for 80 per cent of the year then his expected annual income from building work (not including social welfare payment while out of work) would be IR£4,477 in 1980. The annual average gross family farm income per family labour unit of farm family workers was IR£2,674 or 60 per cent of expected gross earning of semi-skilled building workers. If farm family incomes were raised to the expected labour income of unskilled and semi-skilled building workers in 1980 they would have to be increased by 67 per cent.

3.51 Another sector to which some farmers could transfer their labour is the transportable goods sector. In a previous paragraph it was shown that family farm income per labour unit was 53 per cent of that for workers in these industries in 1980. If an equalization of gross labour incomes in these two sectors were to be brought about, farm family workers would have an increase in their incomes of 88 per cent in 1980.

3.52 Finally, it could be argued that farm family labour should be earning at least the minimum wage for agricultural workers since the physical work is much the same for both groups. During 1980 the minimum weekly wage for agricultural workers was IR£55.36 from January to May, IR£61.63 from May to November and IR£67.56 in December. Converting these weekly figures into an annual figure gives a gross average income of IR£3,147 per labour unit. The income per labour unit of family farm workers was 85 per cent of this. In recent years the minimum agricultural wage has been about 91 per cent of the average earnings of male agricultural workers (as reported in June issues of The Irish Statistical Bulletin). If this relationship held for 1980, then gross earnings for full-time hired male agricultural workers would be IR£3,458 or 29.3 per cent greater than average farm family income per family labour unit.

[22] This was obtained by taking the 12 monthly average of workers in the building industry on the live register as a percentage of the number employed in building and construction in April 1980 (Economic Review and Outlook).

3.53 Farmers might not agree with the idea of equalizing the return to their labour with that of hired agricultural workers, since they would argue that they must exercise managerial responsibilities that are not required of hired farm workers. On the other hand, farm workers do not have job security and are liable to suffer periods of unemployment. Family workers will include some female and child labour which are not comparable to male hired labour.

Restore Farm Incomes to their Long Run Relationship with Non-Farm Incomes

3.54 This is a criterion that is sometimes suggested for determining appropriate levels of farm incomes. It is a social equity type criterion that has problems and disadvantages. First, there is the problem of picking the reference period. Farmers will naturally want to establish the relativity of incomes that they had in a period of high farm income, e.g., 1978. The policy makers may consider this level to be too expensive to maintain.

3.55 It was shown in Table 3.6 that during the 'sixties farm family incomes were about 80 per cent of labour income in the transportable goods sectors. This may be a realistic relationship to establish in the future. In 1980, if farm family labour was to receive 80 per cent of the earnings of industrial labour they would be attaining average farm labour incomes (per labour unit) of IR£4,037, which is an increase of 51 per cent on these incomes on all farms in 1980. A 51 per cent increase in the income from self-employment and other trading income of farmers in 1980 would amount to IR£343 m. If we adjust the income from self-employment for interest payments and depreciation on buildings by a conservative estimate of IR£120 m then the residual income of family farm labour in the national accounts would be IR£552 m. This would have to be increased by 51 per cent of IR£282 m to give farm family labour 80 per cent of industrial workers.

3.56 Using Farm Management Survey data, it is estimated that the 218,000 farm family labour units would require a per capita increase of IR£1,363 to give them 80 per cent of gross industrial earnings in 1980. This would amount to an aggregate increase in income of IR£297 m. These estimates give some idea of the magnitude of the transfer problem if the 80 per cent target is deemed desirable.

3.57 From an economic efficiency point of view, establishing relativities of the nature discussed may be undesirable. In a dynamic domestic and world economy, demands for products and factors are changing at different rates. Markets should be allowed to function so that a response

will be obtained to relative changes in demand. If returns to factors in different sectors are fixed relative to each other, there will be less of an incentive for factors to move to the sectors in which they are in greatest demand. Farmers can justifiably argue that this is already happening in other sectors of the Irish economy where national wage agreements and pay relativities are in force. The degree to which these are distorting the factor markets and thereby reducing national output is not known. Existing distortions in factor markets may not justify the addition of further distortions. The ideal solution is to eliminate those distortions and allow market forces to operate. If questions of equity arise these should be dealt with separately. In the absence of this ideal solution any relativities should aim at creating the least distortion possible. Thus, if a group is producing products for which there is a low demand the long-run policies should not be such that their incomes are supported to the extent that they have no incentive to use their resources to produce goods for which there is a greater demand.

3.58 Some may say that these arguments and the policies they imply are politically naive in the world we live in. But it is equally naive and dishonest on the part of the analyst to pretend that product and factor markets can be interfered with and distorted without any detrimental consequences for growth and employment in the economy.

3.59 Given that farm incomes have fallen through no fault of the farmers, but as was pointed out in Chapter 2 because of high farm input prices that have arisen due to general inflation, there is justification (not necessarily economic) for supporting farm incomes at levels above those which prevail at present.

CHAPTER FOUR

METHODS OF RAISING FARM INCOMES

Introduction

4.1 In the earlier chapters of this report trends in farm incomes and criteria for the comparison of these incomes with other incomes have been discussed. Despite difficulties in measurement and comparisons, it was concluded that in Ireland farm incomes in the last few years had fallen relatively to other incomes. It was noted that in all developed countries in modern times, agricultural incomes tended to be lower than other incomes. The reason advanced for this was that agriculture does not shed labour fast enough. On the basis of an opportunity cost criterion it was argued that the value of farming skills was low, because these skills were not generally transferable to other sectors of the economy. It was noted that since the opportunity cost criterion was not used generally in Ireland for the determination of rates of remuneration of other occupations, it might be unfair to apply it to farmers. An alternative criterion, social equity, was discussed. The major problem with this criterion is that in the final analysis it depends on subjective judgement. Subjective judgement on fair levels of incomes are likely to be made through the political process. In so far as present farm income levels are considered to be unfair, it is appropriate to consider methods of raising these incomes. This will be done in this Chapter, but first an outline will be given of the main EEC and national measures affecting these incomes. These measures include:

i) the Common Agricultural Policy (CAP) of the Community,
ii) national schemes to aid Irish agriculture,
iii) Irish taxes on farmers and farming, and
iv) social welfare payments or transfers to farming people.

The Irish situation as regards government macro-economic policies on inflation and employment will also be considered in so far as they affect real incomes received by farmers.

The Common Agricultural Policy

4.2 The most important mechanism for supporting farmers' incomes

in the European Community is the system of intervention in the markets for agricultural produce which is operational under the Common Agricultural Policy. (Article 39 of the Treaty of Rome which gives the main objectives of this policy is quoted in Appendix C). While methods of intervention vary from product to product, most interventions or at least those most important to Ireland, involve purchases by an intervention agency, and the restriction of imports by means of levies related to the difference between world prices and guide or target prices. There are also provisions for subsidised exports of EEC farm products. Guide prices are fixed annually at meetings of the Ministers of Agriculture of the Member Countries. In general, EEC prices for agricultural products have been maintained higher than world prices, and this, of course, has maintained the total level of agricultural incomes higher than it otherwise would be. However, at these maintained prices, supplies of the supported products have been well in excess of demand. This has necessitated substantial intervention purchases. In disposing of these intervention purchases, the Community has incurred annual losses which are very substantial in relation to revenues available to the Community budget. Since further growth in these expenditures seems likely, there is a danger that insufficient funds will be available to finance the level of intervention necessary to maintain target levels of agricultural prices. This danger could, of course, be avoided by the provision of more funds for the Community budget. However, there are political obstacles to the provisions of more funds in the EEC budget for agricultural price support. Some proposed changes in this support system will be discussed in the final section of this chapter.

4.3 Because it has been recognised that price policies are insufficient to solve structural and regional agricultural problems, other Community measures have been introduced to raise farmers' incomes. Some of these measures are general for the whole Community, but others are restricted to 'disadvantaged areas'. The general measures include schemes for:

i) the modernisation of farms (Directive 1972/159/EEC),
ii) aiding elderly farmers to give up farming and transfer their land to other farmers or to non-agricultural purposes (Directive 1972/160/EEC), and
iii) the provision of advice and training for farming people as regards either farm or non-farm jobs (Directive 1972/161/EEC).

4.4 The special measures for 'disadvantaged areas' include livestock headage payments granted under Directive 75/268/EEC. These payments apply in the West of Ireland. In that area there is also the Special Western Package of aids which came into effect in 1981.

4.5 Under the Modernisation Directive (1972/159/EEC) preferential development aids, partially financed by the Community, are given to 'development' farms. A 'development' farm is one which on the basis of a development plan can be made within six years to give those working on it a level of income comparable to that in non-agricultural jobs in the country or region where the farm is situated. As specified in the Directive the aids for 'development' farms are primarily interest subsidies. (In Ireland it is usual to give the equivalent of these subsidies in terms of investment grants.) National aids for investment may be given to farms other than 'development' ones, but these are required to be less favourable, or in some cases, not more favourable than those given to 'development' farms. In general, the Modernisation Directive involves acceptance of the fact that many farms cannot be developed to provide adequate incomes for their owners or relatives assisting.

4.6 Directive 1972/160/EEC is complementary to Directive 159 of the same year, because it encourages elderly farmers to transfer land to 'development' farmers. Directive 1972/161/EEC, apart from providing guidance and training for those remaining in farming, is also designed to encourage those who are unlikely to receive adequate incomes from farm work to start other careers. Together the three Directives may be seen as involving recognition that price policies for farm products are insufficient to provide satisfactory incomes for many farm persons and that some of these should retire or take up non-farm occupations.

4.7 Directive 75/268/EEC involves the basic premise that 'less favoured' (i.e., poor) areas which are highly dependent on farming need special measures of their own in order to raise incomes, conserve the countryside and avoid 'jeopardising the viability and continued habitation' of these areas. The West of Ireland (Connaught and three Ulster counties and Kerry, Clare and some parts of other counties) has been defined as an area of this kind. Under the terms of Directive 268, livestock headage payments, partially financed by the EEC, have been paid on cattle in the 'severely handicapped' part of this area and on beef cows in the rest of the area. There is also provision for better investment aids than under the Farm Modernisation Directive. Directive 268 also provides for sheep headage payments in the West of Ireland and in some mountainous areas in the rest of the country.

4.8 Table 4.1 shows for 1980 actual and for 1981 estimated gross budget expenditure by the Department of Agriculture (including the Irish Land Commission) on schemes operated in the implementation of EEC regulations and Directives. It is evident that the largest expenditure is for the Farm Modernisation Scheme, for market intervention and for

aids to farmers in less-favoured areas. It should be noted that the expenditure on market intervention refers to incidental expenses and losses incurred in operating market intervention and does not include transfers from the EEC in respect of market support operations under the CAP. These transfers amounted to IR£356.2 m in 1980 and are estimated to amount to IR£325.9 m in 1981. The great bulk (an estimated 90 per cent in 1981) of spending on incidental expenses and losses in operating intervention is recoverable from the European Community. The amount spent on the Farm Retirement Scheme is relatively small – just IR£0.64 m in 1980 and IR£2.2 m estimated for 1981. The Inter-Departmental Committee on Land Structure Reform[1] (Paragraph 4.5) concluded that this scheme was ineffective.

Table 4.1

Gross budget expenditure by the Department of Agriculture on schemes operated in implementation of EEC Regulations and Directives

	1980 IR£'000	1981 IR£'000
Farm Modernisation Scheme	59,501	55,500
Aids to farmers in less-favoured areas	28,378	37,500
Market intervention (incidental expenses and losses)	36,437	27,039
Farmers Retirement Scheme	635	2,175
Programme of special measures for Ireland	–	5,695
Other	2,933	9,048
	127,884	136,957

Notes: Figures were obtained from "Appropriations Accounts 1980" and the Department of Finance.
Expenditure on the Farmers Retirement Scheme comes under the Vote on Lands.

4.9 Other schemes for the West of Ireland partially financed by the EEC include the Western Drainage Scheme, which came into operation in January 1979, and the special package of measures which came into effect in 1981 and which includes aids for electricity, water, roads, land improvement, forestry, farm buildings and interest subsidies for the retention of cattle to the fattening stage.

4.10 Some additional EEC aided measures were introduced during 1980 and 1981 primarily because of the special income problems of Irish farming which have been discussed in Chapter 2. In October 1980 the Department of Agriculture announced that a grant of IR£13.18, financed

[1] Inter-Departmental Committee on Land Structure Reform, Final Report, Stationery Office, Dublin, 1978.

by the EEC (under a Community-wide scheme) would be paid on cows in beef suckler herds in all parts of the country and that an additional grant of IR£12 would be paid out of national funds for each extra cow in such herds over and above the number present in the previous year. In March 1981 the European Commission proposed an increase of 8 per cent in its aids for beef suckler cows. In the case of Ireland it was proposed that the amount of these aids should be doubled. Other EEC aided measures came into operation on May 18, 1981. These measures involve subsidies on:

i) ground limestone for application to pastures.
ii) silage for first time makers and
iii) the artificial insemination of cows.

4.11 A new EEC supported measure announced by the Minister of Agriculture on August 13, 1981, provides for the period 1981-1983 an additional 5 per cent interest subsidy on loans to 'development' farmers or to farmers following 'improvement plans' under the Western Package of Aids mentioned above. This scheme applies to both existing and future loans.

National Measures for Irish Agriculture

4.12 Table 4.2 gives total budget expenditure for 1980 and 1981 by the Department of Agriculture except those of the Irish Land Commission. In 1980 gross total expenditure was IR£240.7 m and net expenditure (after deducting appropriations in aid including receipts from the EEC) amounted to IR£172.5 m. Over half the gross expenditure was incurred in the implementation of EEC regulations and Directives and this has been itemised in Table 4.1. Of purely national expenditure in 1980 only about IR£1.35 m was spent on production and development aids, i.e., input subsidies of various kinds to farmers. If subsidies on milk and dairy produce are treated as consumer subsidies, as they should be, then it may also be said that in 1980 there was scarcely any purely national expenditure on price supports for farm products. In the years preceding Irish entry to the EEC such expenditures were very large. For example, in 1971-1972 the amount spent on 'marketing supports and aids' was £36.5 m.

4.13 The great bulk of purely national expenditure of the Department of Agriculture in 1980 was not closely related in the short run to farmers' incomes. This is not, of course, to imply that such expenditure is unnecessary and that in the long run it would not have a substantial effect on farm incomes. For example, expenditure on agricultural education may give little benefit in the year in which it occurs, but the

benefits of the knowledge and skill acquired accrue over the pupil's or student's working life and may be very great for him/her and for the economy generally. Disease prevention is also an example of necessary expenditure which may not have a discernible effect on farm incomes in the short term. The long term benefits of major items of the Irish government's national expenditures on agriculture are of great importance, but would not seem appropriate for consideration in this report.

Table 4.2

Department of Agriculture budget expenditure

	1980 IR£'000	1981 IR£'000
Salaries, wages and allowances	28,455	35,000
Other general administration	4,596	6,092
Education, research and advisory services	27,366	37,878
Livestock improvement and eradication of disease	25,471	26,217
Production and development aids	1,349	5,084
Subsidies on milk and dairy produce	22,941	38,495
Schemes operated in implementation of EEC Regulations and Directives	127,249	134,782
Other expenditure	3,293	7,636
Total gross expenditure	240,720	291,184
Appropriations in aid	68,186	60,320
	172,534	230,864

Notes: Figures were obtained from "Appropriations Accounts 1980" and from the Department of Finance.
Expenditure on the Vote for Lands is not included and so expenditure on the Farmers Retirement Scheme is not included under schemes operated in implementation of EEC Regulations and Directives.

4.14 Apart from the spending on agriculture discussed above, there was also in 1980 net expenditure of IR£10.6 m by the Irish Land Commission. Included in this was expenditure on the Farm Retirement Scheme already mentioned. Much of the other Commission expenditure was concerned with national measures for the acquisition and reallocation of land to farmers with small holdings. These measures have been subject to analysis and review by the Inter-Departmental Committee on Land Structure Reform. The Committee concluded (Par. 4.9):

> "We feel that this costly and time consuming programme should not be continued for the purpose of transferring land (at tax payers' expense) from one group of people to another, when those receiving the land are often in no great hardship and there may be little gain in agricultural efficiency as a result".

4.15 It may be added that for 1976 and 1977 the total number of persons receiving land (excluding the small number of migrants) was 2,230 and 2,315 respectively (Appendix A9 of the Committee's Report). Each of these figures is less than 1½ per cent of the national total of farmers in 1977, as estimated by the Labour Force Survey. It may be concluded that the Commission's land re-allocation programmes do not affect the vast majority of farmers.

4.16 Examination of estimated government expenditure on agriculture and land in 1981 does not show any major changes in the pattern of spending. Subsequent to the publication of the budget estimates some new schemes were announced. Under the fertiliser subsidy scheme, a subsidy at the rate of IR£30 per tonne of CAN[2] or equivalent in high nitrogen fertiliser was payable on up to 1 tonne of fertiliser purchased and used between May 2 and June 30, 1981. Also first-time silage makers who qualified for a subsidy in 1980 were eligible for a subsidy on their 1981 silage making of IR£3 per tonne up to a maximum of 50 tonnes per farm. Neither of these schemes could have had a big impact on State expenditure or on farm incomes.

4.17 In May 1981 a new calved heifer scheme to commence in 1982 was announced. It was proposed that grants be paid on additional calved heifers; those in a herd in mid-1982 over and above the basic herd of cows and calved heifers on a reference date in mid-1981. This proposed scheme was to last for two years and the grant was to be IR£60 for each additional calved heifer up to 20 per annum in a herd. In December, 1981 it was announced that there would be an interest subsidy of IR£70 per additional calved heifer in herds in mid-1982, to replace the May scheme.

4.18 An interest subsidy of 5 per cent was introduced in November 1981 for farmers participating in the Farm Modernisation Scheme who were not in the development category. This scheme parallels the already mentioned EEC aided interest subsidy for 'development' farmers, but is restricted to loans arranged in the years 1976 to 1980.

Taxes and Social Welfare Payments

4.19 In his budget speech on January 28, 1981, the Minister for Finance stated that income tax paid by farmers in 1980 amounted to about IR£25 m. For the same year agricultural rates were about IR£40 m and farmers were also liable for a resource tax of about IR£7 m.

[2]Calcium ammonium nitrate.

4.20 In Chapter 3 of this report, particulars of social welfare payments to farmers were given. These payments are an important source of income to poorer farmers and landholders.

NEW MEASURES TO RAISE FARM INCOMES

4.21 Hitherto in this chapter government expenditure (including that under EEC schemes) and taxation measures orientated towards agriculture or farmers have been discussed. It is now appropriate to consider how these measures might be changed to raise the incomes of farmers in Ireland or some groups of them. It is also desirable to examine the question of how Irish inflation might be reduced, since it has been shown in Chapter 2 that the rapid rates of general inflation in Ireland have been a major factor in depressing the real incomes of Irish farmers in recent years. In general an increase in the real incomes of Irish farmers may be obtained either by national or Community measures. Firstly, national measures will be discussed below.

National Measures to Increase Farmers' Incomes

4.22 In discussing national measures to aid farmers' incomes, it is important to note that it is not in general in Ireland's interest to encourage such aids. This is because Ireland has a lower national income per capita and a larger proportion of its labour force in farming than most other Member Countries. Therefore, if each Member Country's farmers were to receive income supports only from their national governments the burden of this support would be proportionately greater in Ireland. Secondly, if each country supports its own farmers, the burden will tend to be lower for a net importer of food such as Britain than a net exporter like Ireland. Indeed, a major reason for Ireland's entry to the European Community was to shift the financial burden of income support for Irish farmers from the Irish to the Community budget. Therefore, Ireland should beware of adopting any national measures to assist its farmers, if this seems likely to encourage the replacement of Community by national aids. In any case, the Treaty of Rome (Articles 92-94) forbids many national aids, especially those liable to distort competition between farmers in different countries. However, because of the special difficulties of Irish agriculture at the present time, some leeway on this matter may be given to the Irish government without prejudicing the central principle of common responsibility for farm income supports in the Community. It seems likely that the European Commission would not allow the Irish government to give supplementary price support to Irish farmers for commodities covered by the CAP. More indulgence might be granted to input subsidies. Indeed, the Community already helps to finance special

input subsidies for Irish farming. Direct income supplements to farmers in the form of social welfare payments are permissible under CAP. Such payments are discussed below.

Interest Subsidies

4.23 Where Irish farmers are at a distinct disadvantage as regards other Community farmers, a case may be made for special subsidies to them. One such case is in the matter of interest rates. Rates of interest paid by farmers are much lower in Germany, France, Netherlands and Belgium than in Ireland (Table 4.3).

Table 4.3

Average annual interest rates in 1980 for loans on farm investment

	%
Fed. Rep. of Germany	
– short term	10.8
– long term	9.5
France	
– short term	10.6
– medium term	11.0
– long term	11.6
Italy	
– long term	15.6
Netherlands	
– short term	11.4
– medium term	12.8
– long term	11.4
Belgium	
– all loans	12.9
United Kingdom	
– short term	19.4
– medium term	16.8
– long term	16.8
Ireland	
– short term	17.0
– medium term	16.5
– long term	18.0
Denmark	
– medium term	16.1
– long term	17.1

Note: In addition some Member States grant interest rate subsidies on specific types of long-term loans, in particular those relating to farmland purchase.

Source: Reply given in the European Parliament by Mr. Dalsager on behalf of the Commission to written question no. 1891/80 by Mrs. Ewing.

4.24 It is appropriate before discussing desirable ways of giving interest subsidies for farming investment in Ireland to make an estimate of the percentage of Irish landholders, who would have difficulty in making interest payments on their loans. Table 4.4. shows interest paid in 1980 by Irish landholders on loans for farm purposes in relation to total cash income derived from the farm. It should be noted that cash income, as used here, is calculated before deductions of interest payments. It may be seen from Table 4.4 that about four-fifths of Irish landholders had no interest payments at all in 1980. Only 7.4 per cent of them had interest payments of IR£1,000 or more. Of course, whether interest payments are a problem or not depends not only on the size of these payments but on the cash which is available to finance them. It may be noted from Table 4.4 that 1.4 per cent of all farms had some interest payments and zero or less than zero cash income. These farms generated no cash income either to service loans or to provide for living expenses of the farm operator. Farms with cash incomes of IR£1,000 or less would provide meagre living expenses and scarcely anything for interest payments. For farms with cash incomes of IR£1,000–IR£3,000 interest payments over IR£500 would tend to create a problem. For other cash incomes problem levels of interest payments may be identified. The somewhat diagonal stippled line may be seen as a rough boundary between farms, which have problems with interest payments and other farms. On this basis the estimated percentage of Irish landholders with problems of meeting interest payments in 1980 would have been about 6.0 per cent. It is arguable that the boundary line might be re-drawn to include a greater percentage of farms. For example, some farms with cash incomes of IR£3,000–IR£5,000 might have difficulty in making interest payments of IR£1,000–IR£2,000. On the other hand, farms with low cash incomes and low interest payments might be excluded on the basis that their problems arise from low cash incomes rather than from their borrowings.

4.25 While one may argue about the exact percentage of Irish farmers in financial difficulties in 1980 because of interest payments, it seems clear from the data in Table 4.4. that this percentage was a fairly low one. Despite this low percentage some forms of interest subsidies for farming may be desirable. It would seem convenient to discuss this issue in terms of aid for:

i) land purchase,
ii) other investments, and
iii) farmers in financial difficulties in relation to interest and repayments on past borrowings.

Table 4.4

Interest payments on farming loans – 1980

Cash Income Per Farm	Percentage of Irish landholders with interest payments of: IR£							
IR£	0	0-500	500-1,000	1,000-2,000	2,000-3,000	3,000-5,000	Over 5,000	All
⩽0	7.7	0.8	0.1	0.2	0.0	0.0	0.3	9.1
0- 1,000	31.2	0.8	0.1	0.1	0.0	0.1	0.0	32.3
1,000- 3,000	24.5	1.9	0.8	0.3	0.2	0.2	0.1	27.9
3,000- 5,000	8.4	1.7	1.3	0.6	0.1	0.1	0.2	12.4
5,000-10,000	6.6	1.8	1.2	0.9	0.5	0.4	0.5	11.9
10,000-20,000	2.2	0.7	0.4	0.6	0.4	0.3	0.7	5.3
Over 20,000	0.3	0.1	0.0	0.1	0.1	0.1	0.5	1.2
ALL	80.8	7.9	3.9	2.7	1.4	1.1	2.2	100.0

Notes: Figures are from the 1980 An Foras Taluntais Farm Management Survey (unpublished data)
Cash income, as used in this table = family farm income + interest payments + depreciation – inventory changes.

4.26 A general interest subsidy on land purchase would increase the demand for land. Because the supply of land for sale is probably inelastic (i.e., unresponsive to changes in prices) this increase in demand would tend to have a substantial effect on the price of land. Thus, the sellers of land might be major beneficiaries of the subsidy. This would hardly be an intended effect. If land prices did not rise sufficiently to outweigh the benefits of the lower interest rates, potential land purchasers with initial large holdings of land or other wealth would tend to receive a disproportionate share of the benefits because of their relatively greater capacity to borrow. (For an analysis of the factors determining the price of land – see Higgins 1979.)[3] A case may be made for interest subsidies to selected categories of land purchasers especially farmers whose holdings are too small to provide a satisfactory income, but with enlargement could do so. (For arguments of this kind see Inter-Departmental Committee on Land Structure Reform.)[4] Proposals for interest subsidies to small farm purchasers have also been made in a recent government White Paper on Land Policy.[5]

4.27 The supply of other investment goods and services to farmers is likely to be more elastic or more responsive to changes in price than land. Hence, interest subsidies on such items as farm buildings, farm machinery and land reclamation would have a much weaker effect on the price of these goods or services than interest subsidies would have on the price of land.

4.28 As noted already, Directive 72/159/EEC on Farm Modernisation is a system of interest subsidies for investment on selected farms. The basic idea is to give the most generous interest subsidies to those farms which do not provide their operators with earnings comparable with those obtainable outside farming, but which can do so after the implementation of a development plan. It is worth stressing that interest subsidies under this Directive are intended to help only those farmers who can use the investment effectively and are not designed as a general income support for all farmers. The new EEC supported interest subsidies mentioned above – an extra 5 per cent on loans – will be valuable for 'development' farmers borrowing to finance their investment. In this context it is important to note that from 1974 to 1980 only 22.5 per cent of farmers classified under Ireland's Farm Modernisation Scheme were placed in the 'development' category. Since some 'development'

[3]Higgins, J. 'The Price of Land: Its Determination and Control'. Paper read at conference: The Land Question, An Foras Taluntais, Dublin, December 4, 1979.
[4]Op. cit.
[5]Land Policy, Government White Paper, Stationery Office, Dublin, 1980.

farmers have completed their plans or have no loans outstanding, the actual proportion of 'development' farmers benefiting as members of the 'development' category from the increased interest subsidy will be much less than 22.5 per cent.

4.29 These increased subsidies also apply to farmers, who are following 'improvement plans' under the Special West of Ireland Package of aids mentioned above. As this programme is in an early stage of implementation, it is difficult to estimate how many farmers will follow 'improvement plans' and benefit from these interest subsidies.

4.30 As noted already, there is also an extra 5 per cent interest subsidy for non-development farmers. The restriction of this subsidy to loans arranged in the years 1976-1980 seems likely to limit considerably the number of beneficiaries.

4.31 In general, interest subsidies (or their equivalent in capital grants) for investment on farms can be a valuable aid for helping some farmers to raise their incomes, but in appraising the utility of such subsidies one should look primarily at the end result of the investment. The amount received by the farmer is the cost of the subsidy, whereas the main benefit is the long-run increase in output or income achieved. As a short-term aid to farmers' incomes, they only reduce investment costs for those investing or paying off loans and have no direct effect on the incomes of a great many farmers who are not investing and have no loans. In this context it is appropriate to refer again to the data in Table 4.4 and to recall that only about 19 per cent of landholders in 1980 had any interest payments on borrowings for farm purposes (including land purchase).

4.32 Some special questions arise in regard to a small proportion of farmers who are experiencing difficulties in meeting the interest and repayments on their loans. In so far as these difficulties have arisen because of land speculation, there would seem to be little reason for State aid. Where the problems have arisen from other causes (e.g., unanticipated changes in costs or revenues) it might be argued that many shopkeepers get into financial difficulties in regard to their borrowings and do not receive government assistance and that farmers should be treated the same way. On the other hand, government aid is sometimes given to industrial firms in financial difficulties. The usual reason for this is to preserve employment. If a small number of farmers were forced to sell part or even all of their farms, the effect on employment would probably not be great.

4.33 One relevant circumstance for some farmers may be that on the advice and encouragement of the government and its agencies they commenced development programmes which involved borrowings, which seemed reasonable at the time but which now result in great financial difficulties. Because of this advice and encouragement, the government may be seen as partially responsible for the difficulties of these farmers and would, therefore, have a moral obligation to help them. This obligation would seem strongest in cases, where the difficulties arise from an unanticipated drastic deterioration in profits arising from conditions outside the control of the farmers, and where otherwise the management of the farm has been good. There is a further point that if the over-optimistic farmers of the recent past incur severe penalties, this may cause many other farmers to be excessively pessimistic in regard to future borrowing for farm development. For these two reasons there would seem to be justification for government financial aid to some farmers, who are in difficulties as regards their borrowings. Since many of these farmers are likely to be participants in the Farm Modernisation Scheme, they may be eligible to benefit from the extra 5 per cent interest subsidies mentioned above.

4.34 Any government scheme to assist farm borrowers in difficulties should not be used to compensate banks or other financial institutions for losses arising from excessive or misguided lending. However, if special aids are given to farmers in financial difficulties, this may ensure that these institutions are repaid in full and losses arising from their mistakes are borne by the general taxpayer.

4.35 In general, interest subsidies can have beneficial effects in regard to a variety of purposes. The most important effect would seem to be in stimulating investment, which raises farm output and efficiency in the long run. It should be stressed that this is a long-run effect. In any particular year it only operates on a small minority of farmers. For the vast majority of farmers experiencing falling incomes since 1978 (as outlined in Chapter 2) interest subsidies are not an effective means of raising these incomes this year, next year or even further ahead.

Subsidies on Current Inputs

4.36 The possibilities of giving income supplements to farmers by way of subsidies for their current inputs may be approached by consideration of farmers' actual expenditures on these inputs. Table 4.5 includes details for these inputs in 1979 and 1980 under the headings 'Farm Materials Purchased' and 'Expenses of Agriculture'. It may be seen that purchase of feeding stuffs was the largest item of costs or inputs for Irish farmers for these two years. The same would also be true for 1981. In

both 1979 and 1980 spending on these feeding stuffs was equal to around 20 per cent of gross output. This large expenditure might seem to be the obvious target for government measures to reduce costs to Irish farmers, but because the determination of the price of feeding stuffs is a central part of the CAP and of the Community's trading relations with the rest of the world, it would seem unlikely that the Irish Government would be permitted to subsidise the costs of these materials to its farmers. Even if these subsidies were permissible they might not be desirable in so far as they might encourage the excessive use of imported feeding stuffs. For example, if pig feed based on imported materials was heavily subsidised by the Irish government then pig production might increase, but the value of the extra bacon exported might be less than the value of extra imported feed. Even if the feed was home grown, the extra acreage used to produce it might be diverted from producing other more valuable exports.

Table 4.5

Irish agricultural output, inputs and incomes

	1979		1980	
	IR£m	% of gross output	IR£m	% of gross output
Gross value of agricultural output (including changes in stocks)	1,677.5	100.0	1,665.6	100.0
Farm materials purchased by farmers				
Feeding stuffs	348.5	20.8	316.2	19.0
Fertilisers (including lime)	158.0	9.4	165.6	9.9
Seeds	20.2	1.2	21.0	1.3
Net value of agricultural output	1,150.8	68.6	1,162.8	69.8
Expenses of agriculture				
Rates	39.0	2.3	44.0	2.6
Repairs to machinery etc.	40.5	2.4		
Petrol, oil etc.	56.4	3.4		
Depreciation of machinery	136.3	8.1	427.0	25.6
Transport and marketing	24.1	1.4		
Other	89.0	5.3		
Net output less expenses	765.7	45.6	692.0	41.5
Subsidy under Land Acts	2.6	0.2	3.0	0.2
Subsidies not related to sales (Livestock headage payments etc)	24.8	1.5	45.0	2.7
Income arising in agriculture	793.1	47.3	740.0	44.4
Land annuities	4.8	0.3	6.0	0.4
Wages and salaries	54.0	3.2	62.0	3.7
Income from self-employment	734.3	43.8	672.0	40.3

Source: Agricultural Output 1980 (Estimated Quantity and Value) Central Statistics Office, August 7, 1981.

4.37 Another large cost item for farmers is fertilisers (including lime). Expenditure on this in 1980 amounted to IR£165.6m. In that year a 10 per cent subsidy on cost, assuming that it all went to farmers and caused no change in fertiliser use, would have raised income from self-employment (i.e., farmers' income) by about 2.5 per cent. A larger proportionate subsidy would have a greater effect on farmers' incomes, but if fertiliser prices were reduced much below world levels there might be excessive use of fertilisers in Ireland. As with subsidies on feed, a large subsidy on fertiliser might lead to net benefits, which are less than the cost of imported materials and the value of natural resources (e.g., natural gas) consumed. It is important to note that market prices for farm inputs are signals to farmers about the relative scarcity of these inputs and that there are disadvantages in weakening or distorting these signals.

4.38 Another important point is that fertiliser subsidies reaching farmers are distributed according to fertiliser usage, but this may not be in line with desired changes in the distribution of incomes between farmers. Finally, it should be noted that since the fertiliser industry is oligopolistic (contains few firms), considerable vigilance is needed to ensure that the benefits actually go to farmers rather than to the fertiliser companies. The fertiliser and limestone subsidies recently introduced and mentioned above will, because of their limited scope, have only minor effects on farmers' incomes. To say this is not to pass an overall judgement on these schemes.

4.39 With the possible exception of petrol and oil, the other items of cost do not seem worthy of consideration for subsidies to raise farm incomes. (Rates and subsidies not connected with sales will be discussed below.) In general, subsidies on farm inputs in Ireland, whatever their desirability for other purposes, do not seem a suitable or effective means of changing farm incomes in a desired direction.

Subsidies not related to Sales

4.40 Table 4.5 also shows subsidies not related to sales. These include headage payments on livestock in the 'less favoured area' (West of Ireland etc.) under Directive 75/268/EEC. In the severely handicapped part of that area headage payments are payable on all cattle (subject to a limit on the amount payable to any one herd owner). In the rest of the Western area headage payments are given on beef cows only. Headage payments are also paid on sheep in the area and in some mountainous districts in the east of the country.

4.41 For purposes of analysis it is important to distinguish between more

general and more specific headage payments. A specific headage payment may result in changes in the system of farming, which may mean that the farmer makes a net gain from the subsidy which is less than the nominal amount received. For example, a farmer operating a beef cow suckler system[6] and receiving headage payments on his cows might find it more profitable to operate a store cattle[7] system if no headage payments were payable. In this case the gross gains from the headage payments must be reduced by the difference in profits between store cattle and an unsubsidised beef cow system. The more general the headage payment the less likely or the weaker is the reduction in the gross amount of the susbidy because of changes in systems of production. Since livestock farming, in one form or another, is the dominant farming activity in Ireland, general headage payments on livestock (cattle and sheep) could spread income increases very widely amongst farmers. The distribution of these increases would be in proportion to the number of livestock held. If, for example, the EEC were to adopt a policy of lower prices for farm products, headage payments of this kind might be a suitable way of compensating Irish farmers. Dairy cows might receive proportionately greater headage payments to allow for the previously greater profitability of dairying relative to other livestock farming. One objection to a generalised livestock headage payment might be that it gives most to the bigger and least to the smaller farmers. One way of mitigating this effect is to put an upper limit on payments to any particular farmer. Indeed, in recent years this has usually been done with Irish schemes of headage payments. On balance it would seem that general headage payments have considerable advantages as a method of distributing extra incomes to farmers. It would seem that specific headage payments are more suitable for other policy objectives. For example, a payment of a subsidy per additional cow in any one herd would seem to be primarily a stimulus for increasing the output of milk and calves.

Increasing Agricultural Output

4.42 The various subsidies discussed above would often have the effect of increasing agricultural production. The question arises, therefore, as to whether such increases in agricultural output could have a major effect on the national total of agricultural incomes. Table 4.6 shows for the period 1970 to 1980 indices for total farm incomes (income from self-employment and other trading income) and gross agricultural output. It is evident from this table that annual percentage changes in incomes were of much greater amplitude than the corresponding changes

[6] A system in which calves suckle the cows during their lactation and which, therefore, does not provide milk for sale or for consumption by members of the farm household.

[7] A store cattle system usually involves the purchase of weaned calves, their retention for a year to a year and a half and their sale before they are ready for slaughter.

in agricultural output. The relatively large changes in incomes may be noted for both periods of increasing and decreasing incomes. It would not be an exaggeration to say that changes in agricultural output are dwarfed by those in farm incomes. Over the period 1970 to 1980 the average annual growth in agricultural output was 3 per cent. Examination of Table 1.3 of NESC Report No. 40[8] shows that by international standards this was a high rate of growth. In paragraph 1.4 of the same report it is stated:

> "The records of the past, both for Ireland and for other countries, clearly show that the maximum growth rate in GAO (gross agricultural output) which has been achieved on a sustained basis is around 4 per cent per annum".

Table 4.6

Indices of total farm incomes and gross output

	Total farm incomes (Income from self-employment and other trading income)		Gross output (Including value of changes in livestock numbers)	
	Index 1970 = 100	% Change over previous year	Index 1970 = 100	% Change over previous year
1971	109.9	9.9	106.3	6.3
1972	155.7	41.7	111.9	5.3
1973	199.2	27.9	112.8	0.8
1974	181.2	-9.0	114.7	1.7
1975	261.6	44.3	121.5	5.9
1976	293.9	12.3	116.3	-4.3
1977	408.2	38.9	127.2	9.4
1978	457.8	12.2	135.5	6.5
1979	402.8	-12.0	134.4	-0.8
1980	368.6	-8.5	134.5	0.1

Source: Irish Statistical Bulletin

4.43 If over the five-year period 1980 to 1985, Irish gross agricultural output was to increase by 4 per cent per annum and if total nominal farm incomes (income from self-employment etc.) increased in the same proportion, this would not be sufficient to attain the level of total nominal farm incomes in 1978. The over-all conclusion would seem to be that in the short run — say one to three years — changes in agricultural output are likely to have only a minor effect on total farm incomes in a situation where there are large changes in costs and prices of farm pro-

[8] NESC Policies to Accelerate Agricultural Development, Report No. 40, Stationery Office, Dublin, 1978.

ducts. This is not, of course, to argue that such increases are not important for other reasons (e.g., the supply of raw materials for the food industry).

Improvements in Land Re-allocation

4.44 Improvements in the Farm Retirement Scheme or in national measures for land re-allocation might improve the incomes of small farmers or facilitate the transfer of land from older to younger and more efficient farmers. Reference has been made above to the small percentage of Irish farmers receiving extra land from the Land Commission. Kelly[9] made a study of land transfers over the period 1950-1977. Part of his Table 17 is included as Table 4.7 of this report. It may be seen that for 1950-1977 an annual average of only 3.44 per cent of total crops and pasture was transferred by all methods of acquisition. The average annual percentage transferred by the Land Commission was only 0.14. Even if this percentage was trebled, it would still be a very small proportion of total crops and pasture and so any effects on total agricultural incomes would be very small. Government intervention in the land market through interest subsidies or taxes differntiating between purchasers might influence the distribution of land between prospective purchasers, but would be unlikely to have a substantial effect on the amount of land offered for sale. (For a detailed discussion of the factors affecting the supply and demand for land see Higgins.)[10] Since on average only 0.61 per cent of total crops and pasture were sold per year (Table 4.7) even a doubling or trebling of this percentage would not change the distribution of land very much in the short run (one to three years) and hence over the same period could only have a small effect on total farm incomes. It may be calculated from Table 4.7 that gifts and inheritance involved annual transfers equivalent to 2.67 per cent of the total area of crops and pasture. This is a larger percentage than the corresponding ones for sales and Land Commission transfers. In NESC Report No. 41[11] it was recommended (Paragraph 5.12.2)

> "that the farm advisory service focus on land mobility through early inheritance as one of the central problems of advisory work".

Even if this and associated recommendations were fully implemented

[9] Kelly, P. 'The Acquisition and Price of Agricultural Land in Ireland'. Paper read at conference: The Land Question, An Foras Taluntais, Dublin, December 4, 1979.

[10] Higgins, op. cit.

[11] NESC Rural Areas: Change and Development, Report No. 41, Stationery Office, Dublin, 1978.

one should not expect changes in the operation and control of farms which would have a notable effect on total national farm income within a few years. In general, although a good case can be made for improvements in national and EEC aided policy measures for land re-allocation, it is difficult to visualise any of these measures resulting in changes in the structure and control of land sufficient to cause a significant short-term increase in Irish farm income.

Table 4.7

Estimated area of crops and pasture acquired each year as farm units and extra pieces of land over the period 1950-1977

Method of acquisition	Total acquisitions	
	Acres per year	% of national total of crops and pasture
Market	70,548	0.61
Gifts	196.659	1.69
Inheritance	113,731	0.98
Land Commission	15,979	0.14
Other	2,087	0.02
Total	399,004	3.44

Source: Table 17 of Kelly, P., 'The Acquisition and Price of Agricultural Land in Ireland'. Paper read at conference: The Land Question, An Foras Talúntais, Dublin, December 4, 1979.

Reducing Taxes on Farmers

4.45 Reduced taxation could also be a method of increasing farmers' incomes. The estimated amount of income tax paid by farmers in 1980 was IR£25 m which is only 3.7 per cent of farmers' incomes (income from self-employment etc.) in that year. Therefore, the complete abolition of income tax on farmers' incomes would not result in a large change in total farm incomes. Since any major concessions in income tax would go to farmers with high earnings, this would seem unfair to other income tax payers.

4.46 It is sometimes suggested that farmers should pay only 10 per cent of their taxable incomes in tax, because manufacturing companies are only charged a corporation tax of 10 per cent. This seems to involve a confusion between income tax and corporation tax. It should be noted that although manufacturing companies will only pay 10 per cent corporation tax on their profits, shareholders in these companies will pay income tax on the amounts distributed to them as dividends. While there may be a basis for arguing that farming corporations should be treated similarly to manufacturing ones, any such arguments would not

be relevant to taxes paid by natural persons. At present very few purely farming enterprises are incorporated. If, in fact, the 10 per cent corporation tax was applied to farming companies, then for farms, where a high proportion of income was being invested, the incorporated farms might have some considerable tax advantages vis-a-vis the unincorporated. However, in other respects substantial tax advantages would remain with the non-incorporated farm. The most important of these advantages would seem to be that individual farmers get a concession under capital acquisition taxes, which does not apply to farming companies. This concession involves reducing the value of land assessed for this tax by 50 per cent or IR£150,000, whichever is the lesser. It is of considerable importance in regard to inheritance or other transfers of large farms between relatives. There are also some income tax reliefs (e.g., credit for agricultural rates against income tax liability) which apply to individual farmers, but not to farming companies.

4.47 The complete abolition of rates on agricultural land would increase total farm incomes by about IR£31 m or by about 4 per cent in 1981. The benefits of this abolition would, because of present rebates on farms with low rateable valuations, go to farmers with valuations over IR£50, in other words, to farmers with the most and usually the best land. It is often argued that farmers should only be taxed on their actual incomes and not on the value of their productive assets. It may be noted against this argument that industrialists and shopkeepers pay rates on their buildings, which must also be regarded as productive assets. A further relevant point is that farmers can deduct their rates from their liability for income tax. One advantage of the rate system, as it operates currently, is that it maintains some pressure on persons with large land holdings to use them with an intensity at least sufficient to meet their obligations for rates. Clearly some disadvantages would arise from the abolition of rates, but at the same time it would be an effective means of giving a boost in incomes to farmers with larger holdings, if this was desired.

Increasing Social Welfare Payments to Farmers

4.48 Whereas abolition of rates helps farmers with large farms, changes in social welfare payments would help landholders at the other end of the scale. As noted already, social welfare payments are awarded on:

i) the basis of means tests resembling tests of income, or
ii) on assumed incomes based on rateable valuation.

It would in principle be possible to increase incomes paid to poor farmers on either of these bases (subject, of course, to the constraint of funds available in the budget). The use of the rateable valuation as an

index of income has the advantage that it contains no disincentive to reduce income from the farm. On the other hand, a means test involving income actually earned on the farm might have such an effect, especially in the case of a system where every IR£1 of assessed income may result in an equivalent reduction in the weekly social welfare payment. One possible way of reducing any disincentive effect of this kind would be to use a system where each IR£1 of weekly means would cause a reduction of less than IR£1 (say 50p) in weekly social welfare payments. However, if this were allowed for poor farmers, it might need to be done for other social welfare recipients. In general any system of social welfare payments applying to farmers must be fairly consistent with the system applying to other persons and cannot be much more generous. This sets practical limits to what can be done for farmers' incomes through the social welfare system.

Off-Farm Employment

4.49 For the small-holder whose land resources cannot be developed to yield an adequate farming income, an off-farm job is normally a much more satisfactory solution to the problem of low income than the receipt of social welfare payments. Therefore, a major way of improving the income situation of small farmers is by a policy of dispersal of industrial and service jobs. It would also be desirable that many small-holders should leave the farm labour force completely and take up non-farm careers, and that their land be reallocated in such a way as to improve the incomes of those remaining in farming. In this context, questions arise concerning the Irish government's policies on job creation. Neither the government's job creation nor job dispersal policy measures will be discussed in this report.

Inflation in the Irish Economy

4.50 One major issue for this report is the difference between price rises for farm products and the general rate of inflation in the Irish economy. Indeed, if agricultural prices were increasing at the same rate as general inflation, then much of the current income problems of Irish farmers would not exist. Questions arise, therefore, concerning the general cause of Irish inflation and how or whether general inflation rates can be brought down to the rate of change in farm product prices.

4.51 Most Irish economists would agree that when the Irish Pound was linked to sterling whatever causes determined the rate of inflation in the UK also determined the long run rate of inflation in Ireland. (For more detailed arguments on this topic see Geary).[12] Examination of trends

[12]Geary, P.T., "The Causes of Inflation" Journal of the Statistical and Social Inquiry Society of Ireland, Volume XXIII, Part II.

in British and Irish general price indices shows that Irish and British inflation did not diverge very much up to 1979, when the link was broken.

4.52 British rates of inflation were in the post-war period much higher than those of some other Western countries (e.g., the USA and West Germany). This led to a lowering of the external value of sterling. Joining the European Monetary System seemed to some Irish people to be a way of reducing inflation by escaping from a link with an inflationary economy and a depreciating currency. Some were aware that attaching the Irish pound to the European Monetary System, which is dominated by the deutschmark, might involve stricter monetary and fiscal disipline than that required with the sterling link.

4.53 Expectations about the effects of Irish entry to the EMS were not realised. Irish inflation rates have not fallen, but have been much higher than those in West Germany and in the UK. Also sterling has appreciated in relation to EMS currencies. It might be argued that Irish rates of inflation have not come down to those of its EMS partners because of inappropriate monetary, fiscal or income policies. Undoubtedly, policies in these matters have been seriously at fault. However, it is important to note the very serious difficulties, which arise for the operation of macro-economic policies in an open economy such as Ireland (i.e., an economy, where the ratio of exports and imports to gross national product are each over 50 per cent). In general, the more open an economy the greater is the effect of external forces on that economy and the greater the burden on domestic policy instruments.

4.54 In this context it is relevant to note that when the Irish Pound was linked to sterling there were very strong linkages between the British and Irish markets for money, goods and labour and these linkages were such as to maintain similar long-term rates of inflation in both countries. The question arises, whether linkages of this kind will become established between Ireland and other EMS countries so as to establish similar long-term rates of inflation. As yet, there is little sign of such linkages. In so far as linkages do not arise a very great burden in regard to the control of inflation will be placed on domestic policy instruments. This burden will be particularly great, if economic linkages with the UK remain strong, if the British rate of inflation exceeds average rates in EMS countries and if this difference is not reflected in the exchange rate between sterling and EMS currencies. For example, if the proportion of Irish imports coming from Britain remains unchanged, if British inflation remains relatively high, but if sterling does not depreciate, then Ireland will tend to import that inflation.

4.55 In the authors' opinion the reduction of Irish inflation down to the level of other EMS countries is an extremely difficult task, which can scarcely be done without considerable aid from the European Community. Not only aid, but also understanding of Irish macro-economic problems is needed. Much work needs to be done on the analysis of these problems. Such analysis is needed not only to alleviate the income problems of farmers, but also for the good of most other persons in the State. If inflation is not brought down to EMS levels then devaluation must result in the long run. However, where relatively high inflation is accompanied by large foreign borrowings, as is the case for Ireland at present, then devaluation can be postponed for some considerable time. In the meantime the relative incomes of Irish farmers may deteriorate further. A devaluation in the near future accompanied by a corresponding change in the Irish Green Pound would improve farmers' incomes in the short run but would tend to accelerate the current high level of Irish inflation. This extra inflation might wipe out much or even all of farmers' initial gains from devaluation.

The European Community and Aid for Irish Farmers

4.56 The greater integration of the economies of the Member States is a fundamental principle underlying the establishment and development of the European Community. The establishment of the European Monetary System (EMS) may be seen as part of this process of development. Any special difficulties arising for particular Member States from joining this system may, therefore, have a worthy claim for Community aid. Hence, in so far as Ireland's participation in the system has increased the general rate of Irish inflation and caused a reduction in the real incomes of Irish farmers, there would seem to be a good case for special Community measures to aid these farmers.

4.57 Furthermore, since the objectives of the Common Agricultural Policy include the ensuring of a 'fair standard of living for the agricultural community', it is arguable that special Community aid should be given to farmers in any Member State, where factors beyond the national government's control, adversely affect farmers' incomes. Clearly, a high level of imported inflation would be one such factor.

4.58 Therefore, because of Irish participation in the EMS and the problems arising from imported inflation, there would seem to be good reasons for Community aids to alleviate the special problems of Irish farmers as described in Chapter 2. Since the Community has already given some special aids to these farmers (as described in the earlier part of this chapter), it may be said that recognition of the special problems involved has already been given. However, these special aids are quite

inadequate in relation to the income situation of Irish farmers. Other and more powerful measures need to be considered.

4.59 One way the Community might aid Irish farmers would be through a devaluation of the Irish Green Pound in terms of the European Currency Unit (ECU).[13] This would raise all EEC support prices for Irish farm products by the same proportion as the devaluation. One disadvantage of this change would be that it would raise Irish consumer prices for food unless subsidies were increased. As regards the European Community generally, such a devaluation would cause a further divergence from the objective of a common agricultural price level for all Member States. Despite these two disadvantages it would seem an option worth serious consideration. It would certainly be very advantageous for Irish farmers. Another possibility would be EEC aid for a general system of headage payments on all grazing livestock in Ireland. The advantages of such a system in distributing income widely amongst farmers have already been discussed above. An extension of Community aided livestock headage payments might be facilitated by treating all Ireland as a 'less-favoured area' under Directive 75/268. It has been argued by Cox[14] that "less-favoured areas" as defined under this Directive have been based on inter-regional differences within Member States rather than in relation to Community-wide differences and that if the latter differences had been used as a basis, much more of Ireland, perhaps even the whole State might have been designated as 'less-favoured'. Therefore, it would seem possible to justify EEC aid for general livestock headage payments under a modified version of an existing Directive.[15]

Changes in the CAP

4.60 The discussion in the previous section has been concerned with special Community aids for Irish farmers. It is also necessary to consider changes in the Common Agricultural Policy, which apply to all Member States. The question of fixing the common prices for farm products is specially relevant. Hitherto, the Irish approach to negotiations on farm prices might be simply described as getting the highest possible prices for Irish farmers and letting the Commission dispose of any surpluses arising. Because of limited resources available for the Community budget, it must now be recognised that this approach will not be viable for much longer and that change in the CAP must be accepted. From the

[13]The system of Green Currency Rates has been described above.

[14]Cox, P.G., "EEC Directive 268 and the Disadvantaged Areas". Paper read to the Regional Studies Association (Irish branch), Dublin, 1977.

[15]The present limits on payments per hectare (97 ECUs or IR£66) under Article 7.1 (a) of the Directive would need to be raised to permit payments of IR£50 per livestock unit in Ireland.

view point of the Irish farmer it may now be a question of seeking changes which are least damaging.

4.61 In a recent report the Commission of the European Communities[16] concluded:

i) farm income considerations should not be the only basis for fixing guaranteed prices for farm products,
ii) that the gap between EEC and world prices for agricultural products should be narrowed, and
iii) targets should be fixed for each agricultural commodity and if these were surpassed, producers should be required to contribute to surplus disposal or intervention guarantees should be reduced.

4.62 For milk products the Commission recommended that the principle of co-responsibility be extended. This seems to mean that milk producers should pay greater levies for the disposal of surpluses. In so far as these levies are placed on the total output of milk, it is the equivalent of a reduction in price to producers, which is proportionate to surplus production. While it lowers the returns to farmers it does not prevent them expanding output. Alternatively, if levies are placed on all milk production by a producer above a quota (perhaps equivalent to production in an earlier year), then producers who do not exceed their quotas get the benefits of the support system. On the other hand, those who surpass their quotas are penalised. If these producers are forced to bear a major share of the cost of disposing of the surplus product, then the penalties could be very large. For a country hoping to expand its milk output this type of levy is particularly undesirable.

4.63 While this report contains only the Commission's recommendations, it seems likely that the eventual decisions on agricultural prices will involve farmers sharing the costs of the disposal of surplus products. In general from the viewpoint of farmers the outlook for future increases in Community farm product prices seems less optimistic than before.

4.64 The Commission report also proposes the introduction of direct income subsidies, partially financed by the Community, for small producers. These subsidies might be of considerable benefit to small farmers in Ireland. The cost to the Irish exchequer would, of course, depend on the extent of the EEC contribution.

[16]Commission Report on the Mandate, Com (81) 300 Luxemburg, June 1981.

4.65 In general a reduction or a slower rate of inrease in the EEC common price levels for farm products would add to the present problems of Irish farmers, unless there were effective schemes of compensation.

4.66 A variety of possible means of attaining the objective of increased incomes for Irish farmers have been discussed above. Recommendations on the choice of measures for achieving this objective are given in Chapter 5 at the end of the summary of Chapters 1 to 4.

CHAPTER FIVE

SUMMARY AND CONCLUSIONS

Chapter One

5.1 The dramatic reversal in the strongly upward trend in farm incomes, that was such a feature of the years 1975-1978, forms the background to this study which was requested by the National Economic and Social Council. The study was undertaken by three staff members of the Economics and Rural Welfare Research Centre of An Foras Talúntais with the following terms of reference:

> To evaluate and comment, in the national and EEC context, on the current trends in farm incomes and to identify what policies should be pursued in order that appropriate levels of farm income may be achieved and subsequently maintained.

5.2 Chapter 2 contains a review and analysis of recent trends in farm incomes in Ireland and other EEC countries. This is followed by an outline of probable developments in Irish farm incomes. Chapter 3 is concerned with the measurement of farm incomes and an assessment of criteria for determining an appropriate level of income in the farming sector. The fourth chapter includes an analysis of policy measures at national and Community level designed to attain specific income objectives and outlines certain constraints to the achievement of these objectives.

Chapter Two

5.3 Real agricultural incomes per capita increased by almost 65 per cent between 1970 and 1973. In 1974 cattle prices fell and input costs escalated leading to a significant decrease in agricultural incomes. The depression in 1974 was followed by a four-year period of increasing incomes, reflecting favourable trends in output/input price ratios and an appreciable growth in the volume of gross output. Real per capita incomes more than doubled from 1970 to 1978. This induced a dramatic increase in capital investment which subsequently bore heavily on the repayment capacity of many farmers when allied to rising interest rates and falling incomes.

5.4 A sharp and unexpected reversal in farm output and incomes occurred in 1979 because of a deterioration in cost/price relationships and unfavourable production conditions. The downturn in farming continued in 1980. Product prices were lower than in 1979, the rise in input prices was even greater as was general inflation and interest rates reached historically high levels. The most serious developments in 1979 and 1980 were the continuing rundown in cow numbers and destocking.

5.5 Other EEC countries had the same favourable trends in farm incomes in the early 'seventies and the depression of 1974, but there was a greater relative price stability in countries with appreciating currencies. A phase of successive devaluations of the Irish green pound began in October 1974 and continued until 1978. This contributed to a faster rate of growth of real per capita incomes in Ireland than in other countries. Over the period 1972/73 to 1977/78 about 60 per cent of the increase in Irish milk prices can be attributed to these devaluations.

5.6 Most Member Countries of the EEC experienced a decline in nominal farm incomes in 1979. The fall in real farm incomes diverged between countries, because of differences in general inflation rates. A less widespread decline in nominal farm incomes took place in 1980, but general inflation accelerated in all countries. The decline in the agricultural output/input price ratio when taken in conjunction with high inflation accounts for the relatively greater fall in farm incomes in Ireland.

5.7 For the marketing years 1979/1980 and 1980/1981 the increase granted in the Brussels price reviews were lower than average. A comparison of the periods 1974-1978 and 1978-1980 shows that in both periods the annual rates of change in general inflation and in agricultural input prices were similar. What differentiates the two periods is the difference in the extent of adjustment in the green pound. In the latter period this was insufficient to compensate farmers for the pincers effect of high inflation and escalating input costs. This represented a relatively new phenomenon in Irish agriculture which could not be sustained indefinitely without posing the most serious consequences for the industry.

5.8 It is estimated for 1981 that the value of gross agricultural output will increase by about 14 per cent, but volume could be down by about 2 per cent. The value of net output should increase by approximately 13 per cent, but volume would be expected to fall by 5 per cent. When other items of expenditure including rates, depreciation, fuel and wages are deducted from net output, income from self-employment is projected to increase about 18 per cent which represents a decline in real

terms of 4 per cent.

5.9 The EEC Farm Price Review for 1981 contained the highest price increases since 1974. It is extremely doubtful whether 1982 price increases will be as high or as open-ended. There is the strong suggestion in recent Community documents that with the approach of self-sufficiency for more farm products, prices for these products should gradually be aligned to world price levels. Because of the world supply/demand situation for feeding stuffs and oil products there should be less upward pressure in 1982 on the price index for farm inputs.

5.10 With regard to agricultural output, the decline in the volume of production should cease in 1982. With respect to farm incomes the effect of subsidies not related to sales will exert a growing influence in the short term and it would appear that agricultural incomes (nominal) may increase by about 25 per cent in 1982. In any event neither the level of output nor the output/input price relationship is likely to be so favourable in the short term as to involve a significant increase in real incomes. The severity and duration of the current recession in farming were initially underestimated and it certainly is not going to be an easy task to recreate the conditions for expansion that were such a feature of the period 1975-1978.

Chapter Three

5.11 Available statistical information makes it difficult to obtain accurate estimates of the level of economic welfare of farmers. There are difficulties in measuring the income of farmers because they obtain income from sources other than farming and non-farmers earn some income from farming. There are difficulties in determining the number of persons that contribute to the production of farm products and how much time those persons spend at that production. These difficulties aside, it is fairly obvious from the evidence presented in this study that farm incomes have fallen considerably in the past few years. By 1980 average gross family farm income per family labour unit was only 53 per cent of average gross labour income of industrial workers.

5.12 Historically, farmers' incomes have been below non-farmers' incomes. This is mainly due to the fact that in the adjustment process which accompanies economic development, agriculture is not shedding labour fast enough. This is not helped by the fact that in times of economic recession many farmers find it difficult to move into other employments even where they have the necessary skills; this is due to the fact that excess supplies of labour may already exist for many of these occupations.

5.13 Two main types of criteria were examined in determining the appropriate level of income for farm labour; opportunity cost and social equity criteria. Using an opportunity cost criterion it was argued that since farmers' skills specific to farming are not transferable to other sectors, these skills are worth less outside of farming. If farmers choose to look for another job they would only get a return on skills that were transferable. For many farmers, this would mean that their income in the next best alternative to farming would be that of unskilled workers. Since the opportunity cost criterion is not used throughout the economy for determining rates of pay for various groups in the working population, it may be unfair to apply it to farmers in determining an appropriate level of income for them.

5.14 The social equity criterion involves determining a fair return to farmers. By its very nature it is subjective. It can take a number of forms. The earnings of farm family workers can be compared with those in similar types of businesses or with jobs which require similar degrees of work effort. They could be compared with say, small businesses, but we have no information on the earnings of this latter group. They could be compared with unskilled building workers, a sector to which most male family farm labour could transfer if jobs were available there. Traditionally, farm incomes have been compared with those of industrial workers. During the 1960s gross farm labour incomes were about 80 per cent of industrial workers' gross labour incomes. This was a period of reasonably stable growth in incomes. It was suggested that this might be an appropriate relationship for policy makers to consider. For family farm labour to achieve 80 per cent of the gross labour income of industrial workers they would on aggregate need to obtain an additional IR£300 m income.

5.15 The economic adjustment problem associated with the establishment of relativities such as this was discussed (e.g., a slowing down in resource mobility). However, in view of the fact that the wages of those employed in many sectors are determined, not by market forces, but in relation to the wages of those in employment in other sectors, it is unfair to exclude the farmers from this method of determination, that is, until such time as labour markets are allowed to function more perfectly and wage rates are determined by the forces of supply and demand.

5.16 If farm incomes continue to remain low there will be serious consequences for the rest of the economy. Levels of farm investment will decline. This will lead to a decline in farm output and in employment in sectors servicing agriculture and using agricultural raw materials. There will also be a fall in incomes and employment in sectors selling consumer goods to farmers. Finally, the level of agricultural exports and hence foreign exchange earnings will decline. Some of these effects are already being felt. The farm income problem is not just a problem for farmers, but a problem for society at large.

Chapter Four

5.17 An outline was given of the main EEC and national measures affecting farmers' incomes. These measures include:

i) the Common Agricultural Policy (CAP) of the Community,
ii) national schemes to aid Irish agriculture,
iii) Irish taxes on farmers and farming, and
iv) social welfare payments or transfers to farming people.

5.18 It is not in general in Ireland's interest to encourage national aids to farmers in EEC Member States. Indeed, the Treaty of Rome forbids many national aids, especially those liable to distort competition between farmers in different Member Countries. Because of the special difficulties of Irish agriculture at the present time, some leeway on this matter may be given to the Irish government without prejudicing the central principle of common responsibility for farm income supports in the Community. Where Irish farmers are at a distinct disadvantage as regards farmers in other Member States a case may be made for special aids for them.

5.19 One such case is in the matter of interest rates. Rates of interest paid by farmers are much lower in Germany, France, Netherlands and Belgium than in Ireland. A general interest subsidy on land purchase would not seem desirable, since the benefits of this subsidy would go mainly to the sellers of land or to prospective purchasers, who already have large land holdings. A case may be made for interest subsidies to land purchasers whose holdings are too small to provide a satisfactory income, but with enlargement could do so. The proportion of Irish landholders who had difficulty in meeting interest payments in 1980 on their farming loans, was estimated to be about 6 per cent. There would seem to be two good reasons for helping farmers in difficulties as regards interest and repayments on their loans:

a) because of encouragement and advice from the government and its agencies they embarked on development programmes, which in certain cases led to financial difficulties, and, therefore, the government may have a moral obligation to help them;
b) if the over-optimistic farmers of the recent past incur severe penalties, this may cause other farmers to be excessively pessimistic in regard to future borrowing for farm development.

5.20 Interest subsidies, however desirable for various reasons, only affect the minority of landholders with interest payments (an estimated 19 per cent in 1980). Therefore, for the vast majority of farmers experiencing falling incomes since 1978, such subsidies are not an effective means of raising their incomes within the next few years.

5.21 Feeding stuffs and fertilisers are the most important current inputs by value to Irish farming. Because the determination of the price of grains is a central part of the CAP, it seems unlikely that the Irish Government would be allowed to subsidise the cost of feeding stuffs. Only a very large percentage subsidy on fertilisers would have a significant effect on total farm incomes. Such a subsidy might lead to wasteful use of fertilisers. Increases in incomes arising from lower fertiliser prices would be distributed in accordance with fertiliser usage and this might not be the desired distribution. In general, subsidies on current farm inputs do not seem a feasible means of achieving significant changes in total Irish farm incomes.

5.22 The more specific a livestock headage payment the less likely the recipient is to make a net gain equal to its full value. Since grazing livestock husbandry is the predominant farming activity in Ireland, a general system of headage payments on such livestock would spread income very widely among Irish farmers. An upper limit to the amount payable to any herd owner would prevent excessive amounts being paid to large farmers. Specific headage payments seem more suitable for policy objectives other than raising farmers' incomes.

5.23 For the period 1970 to 1980 annual percentage changes in farm incomes have been of much greater amplitude than the corresponding changes in agricultural output. Where there are large changes in costs of production and prices of farm products, changes in output are likely to have only a minor effect on total farm incomes.

5.24 Measures to encourage the transfer of land from less efficient to more efficient operators, though desirable in themselves, would not have a notable effect within a few years on total farm income. Major concessions in income tax to farmers would not change aggregate farm income very much. Since these concessions would go mainly to richer farmers, they would seem unfair to other income tax payers. Abolition of rates on agricultural land would be an effective means of giving a boost in incomes to large farmers. The fact that the system of social welfare payments applicable to farmers must be fairly consistent with that applicable to other sectors of the population sets limits to what can be done for farmers' incomes through that system.

5.25 If agricultural prices were increasing at the same rate as prices, much of the present income problems of Irish farmers w not exist. While the Irish pound was linked to sterling, the close linka between the Irish and British economies caused Ireland to have the sar long-term rates of inflation as the United Kingdom. The continuatior of some of these linkages with the UK, combined with weak linkages with EMS economies, places a great burden on Irish domestic macroeconomic policies in regard to obtaining rates of inflation similar to those of the EMS countries.

5.26 A continuation of relatively high inflation in Ireland must eventually lead to devaluation, but this may be postponed for some time by large foreign borrowings. A continuance of high inflation without devaluation would cause a continuing deterioration in the relative income position of Irish farmers. A devaluation in the near future accompanied by a corresponding change in the Irish Green Pound, would improve farmers' incomes in the short run, but would tend to accelerate the current high level of Irish inflation. This extra inflation might wipe out much or even all of farmers' initial gains from devaluation.

5.27 In so far as the inflation, which has reduced the real incomes of Irish farmers, arises from membership of the EMS and the openness of the Irish economy, there is a good case for special EEC measures to aid these farmers. Some recognition of the special circumstances affecting Irish farmers has already been given by the Community, but the aids provided are not adequate in relation to the size of the problem. One useful way to help Irish farmers would be to devalue the Irish green pound in terms of the European Currency Unit (ECU). One disadvantage of such a change would be that it would raise Irish consumer prices for food unless subsidies were increased. Another desirable approach would be Community aid for a general system of headage payments on grazing livestock in Ireland. This proposal would be facilitated by designating the whole country as a 'less-favoured area' under Directive 75/268/EEC.

5.28 The outlook for future increases in the common price levels for farm products in the Community seems less optimistic than before. A downward adjustment of these price levels or a slowing down in their rate of increase would, of course, add to the present problems of Irish farmers, unless there were effective schemes of compensation.

RECOMMENDATIONS

5.29 In the light of the discussion in Chapter 3 the authors recommend that average family farm income should be maintained at about 80 per cent of the earnings of an industrial worker fully employed throughout the year. For 1980 and 1981 this would imply an addition to aggregate farm income of the order of IR£300 m. Some further expenditure would be required to deal with the special problems of farmers having serious difficulties in meeting interest and repayments on their loans.

5.30 From the discussion in Chapter 4 it may be concluded that two measures are both desirable and effective as a means of increasing farmers' incomes:

i) a devaluation of the Irish green pound without an equivalent devaluation in the general foreign exchange rate for the Irish pound,
ii) a general scheme of headage payments on all grazing livestock in Ireland.

5.31 Either of these measures or some combination of both are recommended to achieve the desired changes in Irish farmers' incomes. To achieve an increase of IR£300 m in these incomes by changes in the Irish green pound alone would require a devaluation of about 20 per cent. This would raise food prices in Ireland unless consumer subsidies were increased. In view of the very difficult income situation of Irish farmers, it would not seem unreasonable for other sectors of the community to pay more for food, directly or indirectly through higher taxes to finance food subsidies. It may not be easy to persuade the European Commission or other Member States to accept a 20 per cent devaluation of the Irish green pound. Nevertheless, it would seem worthwhile even if success in this task is only partial, i.e., if a devaluation of something less than 20 per cent is permitted.

5.32 To achieve an increase of IR£300 m in farmers' incomes solely through a general headage payments system would require an additional payment of somewhat over IR£50 per grazing livestock unit, since there are under six million of these units in Ireland. The sum of IR£50 per head might be increased, if restrictions were applied to the total payable to any one herd owner. Account would also have to be taken of existing headage payments. Some part of the finance for a scheme of this kind should be obtainable from the EEC. In order to maximise this financial contribution it would seem desirable to have all Ireland declared a 'less-favoured-area' under Directive 75/268. It would seem that even on

favourable assumptions the Community would be unlikely to contribute more than 50 per cent of the cost of a scheme of this kind. Therefore, a considerable burden would fall on the Irish Exchequer, which would require extra taxation or extra borrowing or reduced expenditure in other budgetary areas. In the opinion of the authors, methods of financing this extra expenditure fall outside the terms of reference of this study.

5.33 While a devaluation of the Irish green pound and/or a general headage payments system are recommended as principal methods for raising farm incomes, this should not be seen as excluding other minor measures. The larger landholders would be helped by the abolition of rates and the small holders by better off-farm job opportunities and better social welfare payments.

5.34 Because the income levels of Irish farmers are liable to great variation due to inflation and other factors, it would seem necessary to have regular reviews of these incomes in order to estimate the amount of transfer payments needed to bring them to the level suggested in these recommendations. These reviews including a detailed monitoring of the agricultural situation might be done annually and simultaneously with the tripartite discussions on the National Understanding. An Foras Talúntais would seem to be a suitable body for carrying out such reviews.

5.35 For the problems of farmers with difficulties in regard to meeting interest and repayments on their farming loans, the 5 per cent interest subsidy schemes seem desirable in principle, but some of the conditions attached to these schemes seem unduly restrictive (e.g., the restriction of the subsidy to a maximum of IR£50,000 borrowings by a non-development farmer). However, it is expected that additional government aids to farmers in financial difficulties will be introduced.[1] The existing schemes and any new scheme will need monitoring and may need revision in the light of experience of dealing with problem cases. In some situations advisors in the agricultural sector might recommend the sale of land or other assets, if this would remove the interest and repayment problem and still leave the farm a viable enterprise. The situation is much more difficult where the required sale of assets

[1]Subsequent to the completion of this report a 'Reduced Interest Scheme for Farmers in severe Financial Difficulty' was introduced. Participants in this scheme must first utilise their entitlement under the 5 per cent interest subsidy schemes. On the basis of interest rates of approximately 2½ per cent on long-term loans of the type covered by the new scheme a reduction in interest of up to 3½ per cent may apply for borrowings up to IR£100,000.

would reduce the farm below an economic size. In regard to these cases it is recommended that a fund of about IR£5 m contributed by the State and the lending institutions should be created and distributed in grants in accordance with need and with reference to the reasonableness of previous borrowing decisions made by the farmer. This fund might be augmented in the future, if it proved insufficient in relation to the needs of the situation.

5.36 In general, these recommendations relate only to two main problems in Irish farming, low incomes and difficulties in regard to interest and repayments on loans. There are, of course, many other important problems in this sector, but these are largely peripheral to the terms of reference of this study.

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APPENDIX A

A Note on the Measurement of Economic Welfare

A.1.1 Ideally the economic welfare of a family or individual is measured by the utility or satisfaction which that family or individual could realise over some time period from all the resources at its disposal. To measure utility one would need information on the amount of different goods consumed and the utility generated from that consumption. Such information is not available and, in so far as measuring utility is concerned, is deemed impossible to obtain by most economists. In the absence of measures of utility, economists have turned their attention to measuring the command which consuming units have over goods and services, that is, they have turned their attention to the budget constraints of the consuming units. The most commonly used measure of the budget constraint is annual disposable money income. For the farming population in particular this income needs to be adjusted for their consumption of products produced on their own farms.[1]

A.1.2 To the extent that annual disposable income usually refers to annual earned income less tax deductions, it is a poor measure of the budget constraint facing consuming units in general, and of the constraints facing the farm household in particular. Income and particularly farm income, includes transitory gains and losses. In years when such gains or losses exist, annual income is not a good measure of the normal budget constraint. Even if it were possible to separate out permanent and transitory components of farm income, there would still be problems of comparing consuming units at different stages of their family cycles. For example, persons at different ages may have the same lifetime income streams but have different annual incomes at a point in time. To make valid comparisons, it would be necessary to compound forward all past incomes and discount back all expected future incomes. If the consuming units or groups being compared have the same earnings distribution pattern over their life cycles this will not be a serious problem.

[1] In this connection it could be argued that adjustment should also be made for the consumption of home produced goods, much of which are produced by the housewife, and for the consumption of leisure. Such adjustments would also apply to non-farm households.

A.1.3 For consuming units that own assets, which appreciate in real terms over time, there is the additional problem of how to handle these capital gains. A change in the real value of an asset is a change in real wealth; conceptually this is like a change in current income as it can be saved (as it normally is) or it can be consumed without reducing net wealth[2] if a part of the asset is sold. Because of the difficulties associated with using measures of current income for welfare comparisons, it may be more useful to use consumption expenditure (including the value of home produced goods). Annual consumption expenditure is less likely to be influenced by transitory gains or losses in annual income and is a reasonable indicator of consuming units' economic welfare. An even better measure would be one which added savings to consumption expenditure as this would take account of differences in time preferences of consuming units.

[2]It could be argued that farmers as a group cannot increase their disposable income by selling their assets as most of these assets must be sold to other farmers. The exception would be the selling of assets to non-farmers.

APPENDIX B

A Note on the Causes of Income Disparities, with Particular Reference to Farming

B.2.1 In his book on relative farm and non-farm incomes, Bellerby[1] showed that for most countries over long periods, agricultural income has lagged behind non-agricultural income. This study dealt with a period prior to the second world war when subsidies for agricultural production were virtually non-existent. Between 1923 and 1938, the ratio of income per man in agriculture to income per man in industry varied from 48 per cent to 81 per cent in the UK and from 31 to 44 per cent in the US. Even during periods of war this ratio was not very large; it was 41 per cent to 72 per cent in the US in the 1914-1918 period. A similar picture emerged for most other countries examined by Bellerby. This raises the question as to why, in the absence of government support, do incomes of those engaged in agriculture lag behind those in other occupations.

B.2.2 Before discussing this, the forces that determine the returns to labour in agriculture must be discussed. The returns to labour in agriculture are related to the demand for and supply of agricultural products. The demand for agricultural products is a function of the price of these products and of related products, the income of consumers where the products are sold and changes in the size of the population. In developed economies of the EEC where the bulk of our food is sold, the demand for the farm component of food is not very responsive to change in incomes. Population in this area is growing very slowly. The net result is that the demand for primary agricultural products is only increasing very slowly.

B.2.3 On the supply side, improved technology is a major factor leading to increases in agricultural production. The net result is that economic forces tend to increase supply of agricultural products faster than the demand for these products and this tends to depress their prices[2] (in the absence of government intervention).

[1]Bellerby, J.R., 1956. Agriculture and Industry Relative Income McMillan and Co. 1956.
[2]This is a long run trend. In the short run, one may see reductions in the supply of particular products, due to weather conditions or other forces which will tend to increase the relative price of these products.

B.2.4 Many of the variable agricultural inputs are not specific to the sector (oil-based fertiliser etc.) and the prices of these inputs are determined by conditions outside the agricultural sector (e.g., labour costs, demand for other uses of raw material used in agricultural inputs, fluctuations in currency values and interest rates). If the prices of agricultural products do not move in line with the prices of purchased agricultural inputs (and, at least in the short-run, there is no reason to believe that they will, as there are no strong economic forces that lead to such an alignment), then the returns to the fixed or quasi-fixed inputs in agriculture will be depressed. This will mean that family labour returns will be depressed unless there is rapid outflow of this labour from the sector. These forces are in operation in all developed and developing countries and are part of the process of economic development. Because farm labour does not adjust rapidly enough to these economic forces, serious income problems will arise for this labour force. Because of these income problems and as many of the forces contributing to them are outside the control of farmers (particularly inflation) governments usually intervene to ameliorate the severity of the problems.

B.2.5 Reasons for different rates of remuneration in different occupations were given as long ago as 1776 by Adam Smith[3] and elaborated on by J.S. Mill[4] in 1848. Smith stated that 'pecuniary wages and profits . . . differences arise partly from certain circumstances in the employments themselves, which either really, or in the imaginations of men, make up for a small pecuniary gain in some and counter balance a great one in others and partly from . . . policy . . . which nowhere leaves things at perfect liberty' (p. 99).

B.2.6 He went on to discuss the circumstances which lead to different pecuniary returns for different kinds of employment. Returns to labour will vary with agreeableness or disagreeableness of the employment, with the cost of acquiring the skills needed to carry out the job, with the constancy of employment, with the degree of responsibility attached to the job and with the probability of success in the job. Smith went on to show how barriers to trade and other restrictions can lead to inequality of incomes. Mill emphasised the role which immobility of labour and barriers to entering various trades and professions played in generating inequality.

B.2.7 A number of reasons can be put forward as to why persons in

[3]Smith, A. The Wealth of Nations. Modern Library Edition.
[4]Mill, J.S. Principles of Political Economy.

farming may be willing to continue in that occupation despite low returns relative to other occupations which they could take up. They relate to some of the reasons given by Smith and Mill for the existence of occupational income differences. It could be argued that people earn low returns in agriculture because for various reasons (to be discussed) better paying occupations are not available to them. It could also be stated that persons in agriculture earn low returns for their labour because many of them are willing to continue farming at these low returns.

B.2.8 Many persons born into farming may find it an agreeable occupation which gives a secure, if low, level of income. They may prefer farming to other occupations despite the low returns. For some farming may have a status attached to it which compensates for the low returns. Some farm persons have social obligations (e.g., caring for elderly parents) which can only be met if they stay in the same location. They will take a low return in farming in order to fulfil their obligations rather than take a higher return in some other occupation which could mean that they cannot meet these obligations fully.

B.2.9 To the extent that farmers get non-pecuniary gains and a certain degree of job satisfaction and security from their occupations, which may not be available in other occupations, it is to be expected that their labour income should be lower than that of persons in these other occupations. Indeed, under those circumstances government policy aimed at eliminating the imbalance between farm and non-farm incomes could become increasingly expensive as it would not encourage people to leave agriculture, where there is a relatively low demand for labour and enter other less pleasant occupations (from the farmer's point of view) where there is a relatively high demand for labour. If social obligations are preventing farmers from taking up off-farm jobs in locations that necessitate residing off the farm then the dispersal of industrial and other non-farm jobs to rural areas should overcome this constraint.

B.2.10 As well as personal and social barriers which 'prevent' farmers from leaving farming and entering other occupations, there may also be other restrictions and constraints which prevent them from entering these occupations. They may lack sufficient information about job opportunities; restrictive practices on the part of various institutions can make it difficult for farmers to enter occupations particularly if they have no family tradition in those occupations. The impact of various restrictive practices on occupational mobility is hard to quantify. All the factors which lead to a slow rate of growth in job creation in the economy in general, relative to job demands, contribute to reducing off-farm job opportunities for farm labour and thus to keeping income

of persons on farms lower than it could otherwise be. Discussion of these factors is beyond the scope of this study.

B. 2.11 Finally, while farmers may possess many skills, most of these skills are specific to farming and are in low demand outside the sector. Many farmers might find that if they left farming they might not be able to improve on their farm earnings in a non-farm occupation. According to the 1977 labour force survey 56 per cent of male agricultural workers are over 45 years of age. Older workers are generally less mobile and occupational change for them would generally not lead to increased incomes.

APPENDIX C

Treaty establishing the European Economic Community, Rome, 25 March, 1957:

ARTICLE 39

1. The objectives of the common agricultural policy shall be:

(a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;
(b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
(c) to stabilise markets;
(d) to assure the availability of supplies;
(e) to ensure that supplies reach consumers at reasonable prices.

2. In working out the common agricultural policy and the special methods for its application, account shall be taken of:

(a) the particular nature of agricultural activity, which results from the social structure of agriculture and from structural and natural disparities between the various agricultural regions;
(b) the need to effect the appropriate adjustments by degrees;
(c) the fact that in the Member States agriculture constitutes a sector closely linked with the economy as a whole.

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Table A.I.

Developments in Representative Rate for Irish Green Pound

Date	Rate (ua/Irish Pound)	Date	Rate (ECU/Irish Pound)
February, 1973	2.16440		
October 7, 1974	1.94850		
March 3, 1975	1.86151	October 1, 1979	1.51682
August 4, 1975	1.76843		
October 27, 1975	1.72914	April 6, 1981	1.45954
March 15, 1976	1.69653		
October 11, 1976	1.56778		
January 17, 1977	1.44212		
April 1, 1977	1.35190		
May 22, 1978	1.27079		
April 9, 1979	1.26702		
	(1.53177)[1]		

1. On the changeover from the ua to the ECU on April 9 in the agricultural sector the common prices and representative rates for agriculture were adjusted to maintain price levels; the adjustment coefficient rate was 1.208953.

Note on Green Currencies & MCAs

One of the main objectives of the Common Agricultural Policy (CAP) is to attain common prices in each Member State for commodities subject to the common market regime. This was to be achieved by using the unit of account (ua) – now the ECU – as a common denominator for translating Community prices into national currencies. The ua had the same gold value of the US dollar until 1971. When market prices are fixed each year in the Community they are converted into national prices by a system of exchange rates called "green monies"; there is a representative (or "green") rate for each country.

Problems arose, however, in 1969 when the French Franc was devalued. This meant that the Franc was worth fewer ua and if this representative rate was used for pricing CAP products in France market prices would increase accordingly. However, rather than accept that agricultural prices should rise following devaluation, a system of levies on exports and subsidies on imports of CAP products was introduced to offset the effect of devaluation. These levies and subsidies were the first monetary compensatory amounts (MCAs) introduced by the EEC and have been a feature of the Community to a greater or lesser extent since that time.

It should be noted that in the case of a *depreciating* currency the introduction of MCAs means that prices expressed in national currency are *lower* than they would be if the market exchange rate were used; in the case of an *appreciating* currency the converse is true.

Table A.2.

Evolution of EEC and Irish Price Levels at the beginning of Marketing Year for a Number of Items – Intervention

UA or ECU per tonne[a]

	Barley		Beef Cattle		Butter		Skim Powder	
	Irl	EEC	Irl	EEC	Irl	EEC	Irl	EEC
1972/73	80.84	95.70	561.91	725.40	1,551.00	1,860.00	540.00	540.00
1973/74	84.15	96.66	651.00	801.66	1,602.50	1,760.00	660.00	660.00
1974/75	86.37	96.60	762.71	897.45	1,634.00	1,760.00	790.00	790.00
1975/76	102.16	110.96	882.20	994.20	1,841.20	1,946.30	887.00	887.00
1976/77	110.00	116.00	988.30	1,068.70	2,103.5	2,180.80	901.60	901.60
1977/78	118.00	120.06	1,064.40	1,106.10	2,269.60	2,309.50	940.90	940.90
1978/79	121.57	121.57	1,133.70	1,133.70	2,357.20	2,357.20	957.90	957.80
1979/80	149.17	149.17	1,391.20	1,391.20	2,849.70	2,849.70	1,157.90	1,157.90
1980/81	155.88	155.88	1,446.80	1,446.80	2,916.00	2,916.00	1,215.10	1,215.10
1981/82	165.23	165.23	1,555.40	1,555.40	3,178.40	3,178.40	1,324.50	1,324.50

(a) 1972/73–1978/79 UA/tonne
1979/80–1981/82 ECU/tonne

Table A.I.

Developments in Representative Rate for Irish Green Pound

Date	Rate (ua/Irish Pound)	Date	Rate (ECU/Irish Pound)
February, 1973	2.16440		
October 7, 1974	1.94850		
March 3, 1975	1.86151	October 1, 1979	1.51682
August 4, 1975	1.76843		
October 27, 1975	1.72914	April 6, 1981	1.45954
March 15, 1976	1.69653		
October 11, 1976	1.56778		
January 17, 1977	1.44212		
April 1, 1977	1.35190		
May 22, 1978	1.27079		
April 9, 1979	1.26702		
	(1.53177)[1]		

1. On the changeover from the ua to the ECU on April 9 in the agricultural sector the common prices and representative rates for agriculture were adjusted to maintain price levels; the adjustment coefficient rate was 1.208953.

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(a) 1972/73–1978/79 UA/tonne
1979/80–1981/82 ECU/tonne

Table A.3.

Gross fixed capital formation in Irish agriculture

Year	Buildings	Machinery & Equipment	Other	Total
		IR£ M		
1970	10	17	23	50
1971	15	16	25	56
1972	17	22	52	91
1973	17	25	59	101
1974	13	28	22	63
1975	26	37	14	77
1976	48	57	67	172
1977	59	99	77	235
1978	64	117	115	296
1979	111	120	111	342
1980[e]	n.a.	n.a.	n.a.	270

Source: Central Statistics Office

e = estimated

Table A.4.

Output of Cattle and Cow Numbers, 1970-1981

Year	Inventory Change	Output (incl. Inventory)	Beef Cows	Dairy Cows	Total Cows	Year to Year Variation in Total Cows
			'000			%
1970	+176	1,449	387	1,326	1,713	–
1971	+111	1,550	450	1,344	1,794	4.7
1972	+468	1,750	490	1,430	1,920	7.0
1973	+532	1,736	651	1,487	2,138	11.4
1974	+92	1,809	732	1,476	2,208	3.3
1975	−502	1,859	611	1,491	2,102	−4.8
1976	+40	1,617	547	1,500	2,047	−2.4
1977	+1	1,769	537	1,555	2,092	2.2
1978	−90	1,813	502	1,594	2,096	0.2
1979	+107	1,736	484	1,624	2,108	0.6
1980	−419	1,644	448	1,587	2,035	−3.5
1981	n.a.	1,580	424	1,588	1,982	−2.6

Sources: CSO and Authors' Estimates

Table A.5.

Indices of real net value added at factor cost per agricultural labour unit
("1974" = 100)

Member State	1973	1974	1975	1976	1977	1978	1979	1980	1981
Germany	109.5	90.0	100.5	104.7	98.7	99.1	85.1	81.2	78.5
France	109.8	99.9	90.2	89.5	89.0	90.1	93.4	81.3	75.8
Netherlands	109.8	91.8	98.4	106.9	101.1	99.7	90.8	89.1	104.5
United Kingdom	109.8	96.3	94.0	101.9	93.6	89.8	86.0	79.1	79.4
Ireland	101.9	91.0	106.9	102.9	127.7	130.5	103.3	85.7	86.0
Denmark	109.6	102.7	87.7	92.4	106.5	113.6	97.4	92.9	107.5

Source: Differential rates of inflation and the Common Agricultural Policy Com (82) 98 final, Brussels, 11 March 1982.

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