The Development of an Agricultural Incomes Policy

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INTRODUCTION

Considerable attention is now being given in Ireland to the development of an incomes policy for the community There is general agreement that such a policy should apply to all incomes—not only to wages and salaries but also to dividends, rents, professional earnings and to earnings from self-employment In the self-employed category, by far the most important group is that of farmers and their families At present there are 270,000 farm family members engaged in agriculture (plus 36,000 hired workers) and the application of an incomes policy to their incomes is as important as it is to the other income groups

In the discussion of the criteria for a national incomes policy, no detailed consideration has so far been given to the particular problems which occur in relation to agriculture There are, however, two very strong reasons why the incomes of the farming community should be of particular importance in the evolution of such a policy The first of these is the size of the national labour force which is engaged in agriculture, 30% of the total number of people at work are engaged in agriculture, and a higher percentage still of the total number of males at work are in the farming community

The second reason arises from the fact that, in so far as the evolution of an incomes policy is part of our national economic policy, the role of the State in agricultural incomes has become of much greater immediate importance than in the case of income groups in other sectors of the economy (with the exception of employees of the State itself) This is due to the fact that increases in output in agriculture do not generate equivalent increases in earnings from the market, because of the uneconomic character of the international market for farm products

Irish agriculture has to look to export markets to absorb most of the extra output that it produces Since 1953 the volume of farm exports has increased very substantially, compared with only a small growth in the home market This inescapable route for additional output has, however, brought the consequences of the oversupply of farm products on the commercial markets of the world closer and closer to the income position of the Irish farmer The willingness of other advanced economies to support their farmers in pushing more and more produce on the international market, irrespective of the falls in prices that this has generated, has led to an increasing shortfall between the prices on export markets and those on the home market for the Irish producer

The shortfall has been met from the exchequer, but this does not mean that farmers have no longer any personal responsibility for the levels of income they achieve on their own farms This complex problem of the dual nature of the responsibility for the level of farm incomes means that the application of the basic principles of a national incomes policy to agriculture involves particular problems, and these are considered in some detail in the following pages

Trends in farm income and employment

The past decade has seen a very rapid rise in farm incomes along with those of all the other major sectors of the community Family farm income rose by 52% between 1960 and 1968 inclusive while the number of farm family members fell by 17% Together, these changes meant that average incomes per head increased by 82% in current prices This very substantial increase in money incomes compares with an increase of 37% in the consumer price index, so that real incomes per person in agriculture rose by 33% over this period

The trends in family farm income are determined by—

(*a*) the changes in the volume of farm output,

(*b*) the prices earned from sales of farm products on the home and export markets,

(*c*) the input/output coefficients in Irish agriculture, and in particular the volume of resources purchased from outside the farm which is required for any given volume of output,

(*d*) the prices of farm inputs,

(*e*) the level of financial assistance given to agriculture by the State which directly contributes to the level of farm income [1]

The basic data in relation to these factors are given in table 1 The rise of 50% in total family farm income since 1960 is due more to the increase in farm prices than to the increased output, although the latter has made a very substantial contribution At the same time, although the total farm costs have increased, this has been due to the very considerable increase in the volume of inputs and to a lesser extent to a rise in the price of agricultural inputs The increase since 1960 of almost 25% in the volume of purchased inputs required to produce a given level of output is a consequence of the rapid transition to a capital intensive system of agricultural production This has increased the inputs which arise outside the agricultural sector per unit of output, although the total current inputs per unit output have fallen by 10% since 1960

It is the amount of State support provided in order to directly raise farm income[2] which has shown the most rapid expansion over the past

[1] It should be noted that the State very strongly influences the other factors which determine farm income, but in these cases the influence is not necessarily a direct and immediate one, whereas some important aspects of the financial policy of the State have an immediate effect on the level of farm income

[2] State income support consists of those payments from the Exchequer which immediately affect the level of family farm income, i e product and input subsidies, livestock headage grants and relief of rates and land annuities

eight years, and by 1968 it was well over four times as high as in 1960 This has been the most important single factor in the rise in family farm incomes over this period There has, in addition, been a very considerable rise in the level of support for capital items (drainage, building, improvement schemes, education, research, etc), and this has contributed towards the increase in farm output over these years and thus indirectly to higher incomes

Criteria for farm income levels

So far, this paper has been concerned with establishing the changes which have taken place in farm incomes in recent years This, however, is simply a preliminary to the basic question that is the primary concern of the rest of the paper, i e, the criteria which ought to determine the level of farm incomes This involves very considerable problems of measurement of farm incomes on a basis which will be realistic and fair in relation to the measurement of incomes of other sectors of the population These problems are discussed in some detail later in this paper but the need not only for calculations of farm incomes but also its distribution within the farming population, together with data on the non-farm income they also receive, is an essential part of any incomes policy At present we have global farm income data from the Central Statistics Office but we do not have sufficient information on the way this income is distributed It will be evident from the rest of this paper that the data requirements represent a formidable problem which would be very difficult to overcome in full

The issue is complicated by the considerable amount of non-farm incomes received by people living on farms This takes a number of different forms, in particular emigrants' remittances, social welfare benefits and employment off the farm (generally on a part-time basis) It is generally believed that these non-farm sources of income are of greater importance in rural households than in the urban ones, though detailed information on this important question is not available (The county income studies in 1960 and 1965 showed that the non-earned element in incomes was more important in the predominantly rural western counties than in the more urbanised east) Certainly the non-farm element in the incomes of farm families is an important one, and some of the discussion on the low farm income levels on many small farms is misleading in so far as it implies that these farm incomes are the sole means of financial support for the families concerned

If agricultural incomes themselves are to be taken into account in working out a national incomes policy, it will be necessary to examine the factors which are likely to influence the decisions on farm incomes While these factors have been of great importance in decisions in recent years, they have not been set out in a detailed and explicit form The very fact that farm incomes have received very large support from the Exchequer and are being considered within the framework of a national incomes policy means that the outcome of the market economy is not considered to be sufficiently adequate in itself to give farmers an equitable income.

There are four important criteria which should be considered in a general incomes policy—productivity, comparability, social justice and economic viability: these apply as much in agriculture as in other sectors of the economy. The usefulness of these criteria depends in part on the availability of information, but even if all the necessary data were fully available the ultimate decisions must still involve judgment as to the relative importance of the different criteria. This paper does not, therefore, set out to give a formula by which some uniquely correct set of answers to an agricultural incomes policy could be worked out but sets out rather to establish the framework of ideas and data, so far as they are available, that would facilitate the ultimate judgments that have to be made.

Productivity

The improvements in labour productivity are dependent upon the changes in the agricultural product itself and in the number of people engaged in agriculture. Over the period 1960-68 the gross agricultural product (i.e. gross output minus non-factor costs) rose by about 8% (or 1% per annum). The total number engaged in agriculture fell by 20%—equivalent to 2.5% per annum.[3] Thus the trend in agricultural productivity per head has been upwards and the average increase per annum since 1960 has been 3.5%. The relatively high proportion of the increased level of product per person accounted for by the decline in the agricultural labour force is a cause for concern, for it would seem that the most rapid decline has been among those engaged on farms where the product per head was already well below the average and the decline in this group would of itself raise the average product per head of those remaining in agriculture. It follows from this that the increase in the product per head of those who are currently working in agriculture has risen by less than 3.5% per year compared with the product of the same group of people in 1960.

The increase in the productivity of labour has been lower than that of gross output per man, because the definition of "product" allows for the increase in the volume of inputs. In fact, the rate of increase in inputs (feed, fertilisers, machinery, etc.) has been more than double the rate of increase in output, for the period 1960-68 the volume of inputs rose by over 50% whereas output rose by 23%. This has been a result of the growing scarcity of labour on Irish farms, and the substitution of "ready-made" farm inputs, in much the same way as convenience foods are of growing importance to the urban working housewife.

[3] This is a somewhat faster rate of decline than that of farm family labour force, due largely to the relatively static nature of the number of farmers.

TABLE 1

Year	Family Farm Income		Volume of Farm Output[2] (1960=100)	Agricultural Price Index (1960=100)	Index Price of Certain Agricultural Inputs[3] (1960=100)	Level of State Income Assistance[4] (Index 1960=100)
	Total (£m)[1]	Index (1960=100)				
1960	111 8	100	100	100	100	100
1961	118 4	106	104	100	103	134
1962	121 9	109	107	102	98	156
1963	119 9	107	107	103	101	167
1964	141 5	127	111	114	102	228
1965	141 2	126	111	118	107	263
1966	133 2	119	111	116	111	289
1967	146 2	131	115	119	112	382
1968	169 4	152	123	131	118	434

NOTES 1 Family Farm Income valued at current agricultural prices
2 Gross Agricultural Output including stock changes and turf valued at constant (1960) prices
3 Index Price of certain farm materials, viz seed, feed and fertilisers
4 Comprises those payments from the Exchequer which immediately affects the level of family farm income, i e product and input subsidies, livestock headage grants, relief of rates and land annuities

(SOURCES C S O , Current Budget Tables, Author's estimates)

TABLE 1 (Continued)

Year	(1) Volume of Farm Output[1] (1960=100)	(2) Index of Volume of Input[2] (1960=100)	(3) Index of Real Net Agricultural Product (1960=100)	(4) Total Persons Engaged in Agriculture: Number	(5) Total Persons Engaged in Agriculture: Index at Imputed 1960 Prices[3]	(6) Input/Output Index (1960=100) A[4]	(7) Input/Output Index (1960=100) B[5]	(8) Index of Net Agricultural Product per Person Engaged
1960	100	100	100	382,000	100	100	100	100
1961	104	111	102	371,000	97	98	107	105
1962	107	118	102	362,000	95	96	110	108
1963	107	122	100	355,000	93	97	114	108
1964	111	126	104	346,000	91	94	114	115
1965	111	137	98	333,000	87	95	123	112
1966	111	137	99	326,000	85	94	123	116
1967	115	142	102	315,000	82	91	123	124
1968 (est)	123	152	108	306,000	80	90	124	135

NOTES
1 Gross Agricultural Output including stock changes and turf valued at constant (1960) prices
2 Farm Materials (seed, feed and fertilisers) used plus other expenses including depreciation on machinery but excluding agricultural wages, valued at 1960 prices
3 Total Agricultural Labour Force imputed at average 1960 agricultural wage rates
4 The Volume of Inputs (all the items covered at (2) plus the imputed value of total agricultural labour as at (3)) required to produce a given volume of gross agricultural output
5 The Volume of Inputs as defined in col (2) required to produce a given volume of farm output

(SOURCES C S O , Author's estimates)

Contrary to popular opinion the prices of farm inputs have risen at a much slower rate than prices in other sectors, or of the prices of farm products for sale. Part of this rapid expansion in the volume of inputs can be ascribed to the low rate of increase in the prices of farm inputs. It would therefore appear that the relatively slow rate of increase in the gross product of agriculture has been due in part to the effects of the slow rate of increase in the prices of farm inputs. A faster increase in price would have deterred some farmers from making the substitution of non-labour inputs for farm labour—although the net result might well have been to reduce the rate of growth in gross output, this illustrates the complexity in determing the appropriate policies which would generate a rapid growth in productivity.

Comparability

The main factor put forward by the farmers organisations in the discussions on farm income levels is that of comparability for farm incomes with those in other sectors. This criterion has been developed in various forms in a number of countries—perhaps the most outstanding being the parity formula in relation to prices of farm products in the U.S. In Ireland it has been part of official policy in relation to agriculture to ensure that "farmers who work their land fully and efficiently share equitably in the growing national prosperity and that a reasonable relationship is maintained between farm incomes and incomes in other occupations". This statement of intent, however, gives rise to major problems of interpretation.

The first of these problems is that of defining the group of farmers who work their land fully and efficiently, and of determining what are the changes in their levels of incomes. The only income data for agriculture published on a regular annual basis refers to gross and net incomes from all agricultural production and this includes output from part-time and spare-time farming, from non-viable units and from inefficiently run viable units, as well as from farmers who work their land fully and efficiently. It is evident that the delineation of this latter group would present considerable difficulty, and the estimate of their farm incomes each year would require statistical information in addition to that currently available.

In the absence of such estimates, the comparison of farm incomes with those in the rest of the economy has generally been done on a global basis. This, however, in turn gives rise to very complex problems of what should be compared with what. So far as farm incomes are concerned, the problem lies in a valid division of the total number engaged in agriculture into those working economically viable farm businesses and whose incomes could be reasonably compared with those of other economically active sections of the community, and those engaged in agriculture but operating non-viable farm businesses and whose incomes could reasonably be compared with those of other welfare groups in our society. The question of definition of what is an economically viable business is not in itself of any particular difficulty, though there is unlikely to be unanimity in where exactly the line should be drawn A most useful criteria is that of the employment potential of the farm business as it is currently operated, farm businesses with employment potential of less than one man should be regarded as being only of a part-time nature (and for social reasons even the one-man full-time standard is generally too low, particularly in a livestock economy, unless satisfactory arrangements are made to give the man leisure time each week and an annual holiday)

The effect of measuring economic viability in terms of the employment potential of the farm business is most striking The employment potential can be evaluated in terms of the number of "standard man days" that would be required to operate a farm with a given stock and cropping programme at average levels of efficiency in the use of labour A set of coefficients for each category of livestock and acre of crops has been prepared by the C S O after consultation with the Department of Agriculture and An Foras Taluntais and these have been used in relation to the farms included in the Farm Management Survey of An Foras Taluntais The results of the analysis of the farms in this survey in 1966-67 according to the level of standard man days per farm is shown in Appendix Table 1 and show that average incomes ranged from under £100 on farms with less than 100 standard man days to over £2,100 on farms with more than 1,200 standard man days

A redefinition of per capita farm incomes in terms of the average income realised on viable holdings and those realised on non-viable holdings would bring out the striking differences in farm incomes on these two major categories of farms in Ireland A very substantial number of "farms" in this country, i e those holdings which in the Census of Population are regarded as providing the main occupation of the farmers who live on them, are in fact only providing part-time employment if the amount of work involved in the crops and livestock that they carry was undertaken with average efficiency Whilst no precise estimate of the number of "farms" in this category has been published, it would appear that the number is very substantial and possibly as large as 60% of all agricultural holdings over one acre At present all the people engaged in farming on a full-time basis are included in the calculations of per capita farm incomes even though they may in fact operate non-viable holdings and it is the result of this calculation which in turn is compared with some of the economically active section of the population At the same time, not all the income arising in agriculture accrues to those engaged full-time, some output and income in agriculture is generated by people whose main occupation lies outside agriculture but in the per capita calculation this income is treated as if it accrued to those engaged full-time

This method of defining per capita incomes would still, however, leave open the question of the appropriate group with which per capita farm incomes should be compared This is a particularly difficult problem—so much so that it has led to the view that there is no valid comparison which is reliable and meaningful The basic problems are not only to determine with which group farm incomes should be compared, but to provide for the differences in real incomes which would arise from the same money incomes in urban and rural areas The conventional comparison has been with the average earnings of either "all workers in transportable goods industries" or of "adult males in transportable goods industries" In so far as the numbers engaged in agriculture includes more than just adult males, it would seem that the "all worker" group would be more appropriate, although even here the problem of a different mix of adults and juveniles, male and females, part-time and full-time workers would still leave many problems of true comparability The most straightforward way out of this particular problem would seem to be to compute the average earnings of the full-time adult male equivalent in the economically viable sector of agriculture and to compare this figure with the earnings of adult males in transportable goods industries [4] Such a computation would, however, require more basic data in the agricultural sector than we have available so far

There would still remain two further problems The first is that incomes in agriculture are a reward for labour, management and capital, whereas earnings in industry relate primarily to labour only The evaluation of the management function of the average economically viable Irish farm would be a complex procedure, for the management requirement is not the same as that in manufacturing industries However, as the earnings of adult males in the transportable goods industries includes those of people undertaking some managerial responsibility, this may still be the most reasonable figure with which to compare agricultural incomes

The problem of capital gives rise to further major difficulties Agricultural capital, like that in other industries, is essentially risk capital in which the return represents an evaluation by the action of market forces of the values of the marginal amounts of investment At the same time the incentives to ownership of capital assets in agriculture include much more than just the return that the capital is likely to earn Farmers derive a satisfaction and status from owning land, they have enjoyed considerable capital gains from improvements in land prices over the past decade and on the smaller farms an artificially low system of valuation is allowed for estate duty purposes This has meant that decisions of Irish farmers to invest in land are determined by factors other than the direct annual income which it is expected to generate In view of these advantages it would seem inappropriate for a target rate of return on capital invested in agriculture to be fixed arbitrarily, particularly while the present system of giving state assistance to invest-

[4] The definition of the "economically viable sector" would give rise to further problems, but could be usefully defined as those farms on which the labour requirements in terms of the Standard Man Days for the crops and livestock on the farm are at least equal to the amount of labour available on the farm and with a minimum full time employment of at least one man

ment in fixed and working capital (with some differentiation according to the nature of the investment) is continued The capital grants help to provide some measure of capital appreciation, which is an important element in the return on capital, otherwise the level of return could be left to the effect of competitive market forces

This is relevant to the comparability of incomes in the commercially viable sector of agriculture There still remains the difficult problem of income in the primarily subsistence sector of agriculture—a sector which accounts for a greater proportion of the agricultural population than is generally recognised This will involve comparisons with other welfare groups, in which the problems of social justice are of paramount importance

Social equity

The considerations of social equity in an incomes policy with particular reference to the position of the lower paid workers, are as important—if not more so—in agriculture as in the rest of the economy In the farming sector, this criterion is relevant to the position of the farm worker and to the income position on a large number of smaller farms The application of the criteria of a national incomes policy to the farm worker is unlikely to give rise to any special difficulties As one of the lowest paid categories of adult male employment, the need for special consideration is of greater relevance than in most other forms of employment In time, practical recognition might be achieved for the particular skill of farm workers, and a somewhat more formal career structure be developed, but this is unlikely to take place immediately At present, the income position of the farm worker is strongly influenced by the fact that this is a declining occupation and while this decline continues it is unlikely that farm workers will see a large *relative* improvement in their position *vis-a-vis* other groups of workers, although in the longer term the position may change considerably

The problem of the small farmer is much more complex Many of them suffer economic disadvantages because of the inability of their farm business to maintain its economic position in the modern world, due to both lack of physical and managerial resources and to the oversupply of farm products on the international markets The unwillingness to accept the logical consequences of this economic situation stems from the belief that small farms contribute to the quality of our national life something above their economic contribution to the gross national product, as well as to the fact that any rapid migration from these farms is likely to be to employment abroad since the current rate of creation of new jobs at home is insufficient to absorb the number of people who would otherwise leave the land The longer term solution includes the further development of those farm businesses which have the potential to achieve viability up to the point at which this is realised The steps to this end have recently been reinforced by the raising of the grants under the Small Farm (Incentive Bonus Scheme) Many farms, however, have not this potential and structural reorganisation is necessary to bring a proportion of them up to the level of viability, leaving the rest as dwellings for elderly or for those with other important sources of income The development of alternative sources of income, especially off farm employment in industry, tourism and other services, is a necessary part of successful economic policy in the small farm areas

Structural reorganisation and off-farm employment developments, however, take a long time and in the meanwhile some criteria have to be applied to the degree of special assistance to be given to those small farmers and their families who are currently living on a relatively low income The economic predicament on these small farms is that the labour is under-employed (in terms of economically rewarding activity rather than simply periods of enforced idleness) and the situation is comparable in some ways to that of the unemployed worker in the other sectors of society The problem is being met at present by the scheme for unemployment assistance for small holders, in which rates of payment for these people who qualify are similar to those of people in urban areas who are in receipt of unemployment assistance, the rateable valuation of the farm being taken into account as a notional basis for computing the income of the smallholder from his land (at the rate of £20 income per £1 land valuation) At present this scheme is applicable only in the twelve western counties, where the problem of small farms is most serious The scheme has proved to be an important plank in an income maintenance policy in the small farm areas and is automatically linked to the welfare standards of the community generally

The role of economic viability

Any prescriptions in a national incomes policy must have regard to their viability, in terms both of the general situation of the economy (with particular regard to the balance of payments and the rate of general inflation) and also of the ability of the enterprises concerned to pay the increases which are determined as appropriate In the case of agriculture this presents a special problem, both because the ability to pay has come to be linked to budgetary rather than profitability criteria and because the actual decision on the numbers and categories of people in employment are taken quite independently of the State which has to play the major part in the provision of income increases In other words, a commercial firm can adapt its policies to provide the wages and salaries it agrees to pay its workers, whereas in agriculture the achievement of optimum farm policies can only be affected indirectly by the State, which now provides a large part of the additional monies of people engaged in agriculture The effect of the situation with regard to budgetary constraints is of relevance for a substantial number of people apart from those in agriculture and the factors affecting these decisions on the incomes of State employees can readily be extended as one of the considerations in the case of agricultural incomes

The question of economic organisation in relation to employment creates much greater difficulties If a steady increase in gross national product is to provide the basis for increased real incomes throughout the community, then improvement in the efficiency of production has got to be maintained This comes about through improvement in the economic performance of the individual business units, through the creation of new businesses of above average performance rates and through the transfer of resources away from the least efficient units It is a function of the economic process to facilitate these developments as the means of generating higher incomes for the community as a whole

In the case of agriculture the transfer of resources away from the inefficient production units involves very large social and economic problems There is a considerable number of farms in Ireland which must utilise their labour resources in a more efficient manner if they are to provide a worthwhile improvement in the incomes of the people who are dependent on them In so far as these farms are primarily family farms their labour force is generally stable and increases in productivity must come through improvements in their farm production policy It is necessary to devise incomes policies which do not conflict with the need to *create* the extra wealth which people wish to enjoy in the form of higher incomes

An incomes policy must therefore have regard to the need to create a system of production in agriculture in which the individual business can generate a sufficient level of output which in turn will provide the incomes which are sought by the farming community If we are to extend the current standards of a middle class society to all people in the community, i e universal provision of good class housing, full educational and medical services, consumer durables such as television sets, refrigerators and a car in most families, etc, then this cannot be realised from a subsistence approach to farm production Only a commercially viable farm will be able to offer the production from which the desired income can be created

There seems to be a fairly widespread, if somewhat nebulous, belief that these standards of living can be realised by income transfers without basic improvements in the structure of agriculture (i e the way land, labour and capital is organised into individual production units) This is liable to be self defeating on two counts In the first place this involves transferring some of the additional real incomes from those who create it in order to maintain living standards of those who do not—and this can only be done to a limited degree if the incentives to economic growth are to be maintained Of greater importance is, however, the problem that income transfers tend to create a welfare mentality, this is fully justified in the case of the elderly, the sick and the disabled, but is liable to undermine the very characteristics of sturdy independence which are held to be the special contribution of rural people to our community as a whole

It is precisely this problem which led to the proposals for large scale reform, of which the most outstanding example is the Mansholt Plan, There is a widely held view that this approach is inappropriate to the problems of Irish agriculture. Whilst the specific details of the Mansholt Plan may not be the most suitable in the Irish context (and in its present form the Mansholt Plan may not be accepted by the European Community), the basic economic objectives are as relevant to Ireland as they are in the rest of Europe. If our application for E.E.C. membership is accepted, then participation in the Community's Common Agricultural Policy will be part of our commitment to the Community. Even without membership of the E.E.C., the development of an agricultural incomes policy is going to bring additional pressure on the development of an agricultural industry consisting of viable farm business units, with the non-viable holdings being a special category for the elderly who are in receipt of social welfare benefits, for part-time farmers with other forms of employment and for those who are fortunate enough to have other sources of income. These trends are universal today, even Britain, with only 3% of its working population in agriculture, has a policy of reorganisation aimed in this direction. The problem of economic viability within the agricultural industry is by no means peculiar to Ireland. The existence of a substantial group of non-viable farms in almost every advanced economy (non-viable here being defined by the economic standards of each of the countries concerned, and not in any international sense) has been one of the major factors in the continued decline in the agricultural labour force in these countries. This decline in the proportion of the working population in agriculture has been very strong even in countries with a much smaller proportion in agriculture than Ireland, as well as in countries with a highly developed farming sector. Countries such as Canada and the Netherlands have less than 10% of the working population in agriculture and yet have experienced a rapid decline in their agricultural labour force in recent years.

The problem of income disparities between a rural and urban population has remained of major importance in many countries in spite of relatively rapid declines in their agricultural labour force. This is a reflection of the wide differences between the proportion of Gross Domestic Product generated in the agricultural sector and the proportion of the working population it employs. In 1966, for example, Danish agriculture employed 16.6% of the working population but generated only 10.2% of the G.D.P. In France the differences were even greater—17.6% of employed and only 7.4% of G.D.P., while in Germany and Italy the differences were even greater. By comparison the Irish figures of 31.9% of the working population and 21.1% of the G.D.P. in 1965 represent a somewhat better balance between agriculture and the rest of the economy—although they still reflect the underlying problem of adjustment which the economy still faces.

The future development of agricultural incomes

The application of an incomes policy to agriculture will not of itself solve the basic economic difficulties of Irish agriculture but should throw into much sharper relief the basic causes and nature of these difficulties In particular it should bring a much clearer analysis of the attitudes and philosophies of the people involved in the farming industry A better understanding of the economic problems and the social philosophies in rural communities should provide a basis for the gradual solution of these problems and for the development of shorter term ameliorative measures

One of the important features of the development of an incomes policy is the evolution of generally accepted standards for a viable income of the rural family and of a viable business unit in terms of the employment it creates when operated with reasonable efficiency This aspect of farm incomes and of the economic organisation of production for achieving the desired income levels will require careful definition and periodic revision to take account of the changes in technical and economic standards A definition in reasonably precise terms is likely to encounter considerable difficulties initially but the detailed consideration of these factors should help in the subsequent development of an effective agricultural incomes policy

Such a policy would have important repercussions on the further development of the agricultural industry itself It is likely that many of those who wish to see agriculture develop in a particular way will see an agricultural incomes policy as a means of fostering their point of view The need to improve agricultural incomes within the constraints of the position of the national economy, the funds available to the Exchequer and the developments in the rest of our society may, however, leave relatively little room to promote a particular agricultural philosophy One important part of our incomes policy will be to focus attention on the alternatives in terms of income levels, employment and structural changes which will be possible in the forthcoming years

The responsibility for an agricultural incomes policy

It has been widely agreed that an incomes policy for wages and salaries must be a voluntary arrangement, even though such an approach may limit its effectiveness In the case of agriculture the position is somewhat different as in the last resort the government acting on behalf of the community as a whole must make the final decisions on the extent to which income transfers should take place It would be utopian to expect these decisions to be to everyone's satisfaction Even the development of an appropriate and efficient procedural mechanism is likely to give rise to many difficulties

It is necessary to stress that the success of an agricultural incomes policy depends upon the response of both the State and the farmers themselves, and that this applies primarily in the way in which the responsibilities implicit in an agricultural incomes policy are exercised In the case of the State, the considerations of the criteria of productivity, comparability, social justice and economic viability have in recent years led to a massive rise in State expenditure in relation to agriculture This has risen over fourfold between 1960 and 1968 and the indications are that it will rise further in the current year The increase in the expenditure in relation to agriculture has more than kept pace with the rise in State expenditure as a whole since 1960 and therefore has tended to grow in relation to the growth in the Gross National Product These increases in State support for agriculture do not of themselves prove one way or the other that the State responsibilities under an agricultural incomes policy are being met but they certainly indicate a major commitment by the Exchequer to the maintenance of farm incomes

At the same time, the responsibility of the farming community itself is of equal importance Economic progress in terms of an improvement in the ratio of additional output to additional farming inputs has got to be pursued vigorously if a satisfactory growth in the gross product of agriculture is to be realised This would provide the additional net product which would in turn raise the level of incomes generated in agriculture Special problems, particularly of economic export markets for farm products, are of major importance and these can only be met by gearing agricultural production to the market opportunities that exist or can be developed These adjustments in production and marketing policies must be accompanied by changes designed to improve the proportion of viable farm business units, and it is inevitable that many farmers will be directly affected by these changes

Thus an agricultural incomes policy is not going to provide a simple solution to the farm problem in Ireland It will require a constructive effort and understanding by all the parties involved if it is to make real progress In many ways a comprehensive policy for farm incomes will represent a formal synthesis of the basic objectives of agricultural policy into the detailed decisions on farm prices and incomes The evolution of this policy without encroaching upon the freedom of economic decision and responsibilities of the individual farmer will represent one of the major challenges of the 1970's for Irish agriculture

DISCUSSION

J Richards Orpen Any aspect of Government which involves the expenditure of large sums of money should be the subject of frequent discussion and analysis State expenditure in relation to agriculture has grown as the result of external economic forces rather than as conscious or definitive policies and so it has not received the study which it merits Dr Attwood does us a service in presenting a paper which encourages a lively discussion on this subject

The often quoted figures for "State expenditure in relation to agriculture" are used more in a political context than an economic one All sections of the community receive their support from the State as and when it is needed For example, figures quoted in answer to questions in Dail Eireann show that State expenditure in relation to industry as a percentage of State expenditure in relation to agriculture calculated on an equivalent basis are for 1959/60, 107%, 1960/61, 124%, 1961/62, 93%, 1962/63, 113%, 1963/64, 142%, 1964/65, 111% I haven't got the figures with me for later periods and suspect that they have moved in the other direction but the figures given here are enough to illustrate my point

Some of the items which Dr Attwood quotes as State support in order to directly raise farm income are open to question I am sorry that Dr Attwood, in a paper of this nature, did not question the definition of State support and discuss whether or not certain items should be included Differing views are tenable and that is why, in 1965 at the farmers' request, the Government dropped the title "State Aid to Agriculture" and substituted "State Expenditure in Relation to Agriculture"

Firstly, the so called agricultural grant in relief of rates is a case where the State decides not to collect a form of tax off the farmer which it agrees the farmer could not in justice be asked to pay Secondly, that part of the milk support which is in respect of butter sold on the home market is a consumer subsidy rather than a subsidy to the farmers Thirdly, a large part of this support is required because of ever decreasing prices on the export market Increasing State support is required so that farmers can get a constant price There is nothing in this to directly raise farm income

I am glad that Dr Attwood has highlighted the statement of intent that "farmers who work their land fully and efficiently share equitably in a growing national prosperity and that a reasonable relationship is maintained between farm incomes and incomes in other occupations" The trouble about this statement is that so little is done about it The problem arises because increases in agricultural income do not come regularly each year Over the last 15 years or so the pattern has been that substantial increases occur every third or fourth year or so followed by years of little or no increase In a good year farm income rises by more than Government anticipates and in the following year Government takes no positive action in the hope that this momentum will continue It is only in the second and third years of income stagnation that Government realises that further positive action to implement this intent is required

I am particularly interested in what Dr Attwood has to say under the heading of comparability As he rightly says this is the factor by which farm organisations would like to have farm income judged His conclusions as to the groups in which per capita income should be compared are acceptable but there is one important matter which, I think, Dr Attwood should have discussed in his paper and that is exactly what type of income should be compared To my mind for this comparison income has to be reduced to what, for want of a better word, I will call "take home pay" The earnings of the industrial worker are entirely take home pay but in the case of the farmer there are a number of items which must be excluded before we arrive at the take home pay which is the money he can spend on his home and on his family These items are the interest which he has to pay on money borrowed for his farming operations and the money which he has to invest in stock increases and in buildings

Estimates of these amounts, averaged over a recent five years period, are approximately

Bank interest	£4 1 million
A C C interest	1 0 „
Value of livestock changes	6 9 „
Spent on buildings	4 9 „
TOTAL	£16 9 million

This is $11\frac{1}{2}\%$ of the average farm income over this five-year period, £146 3 million

When one thinks of the low level of production on the non-viable farms the proportion of income which goes on bank interest and reinvestment on the viable and highly productive farms must be a high figure indeed

When Dr Attwood comes to consider agricultural capital, I think his arguments are weak Satisfaction, these days, comes from security and status comes from a desk job, not from working on the land Furthermore, I do not see how a farmer can be said to enjoy capital gains from improvements in land prices, considering that he cannot realise that capital unless he sells the land and ceases to be a farmer Until, in other words, the capital realised is moved outside of agriculture There are very few farms nowadays that come within the orbit of the artificial system of valuation for estate-duty purposes If no interest is to be allowed on the capital locked up in his farm and in his stock during the farmer's lifetime, then it seems logical that no estate-duty should be charged on the same at his death

Dr Attwood rightly stresses the difficulty of transferring agricultural resources away from inefficient production units I would like to see the State develop the reverse A policy where these resources were transferred towards efficient units and efficient people The easiest way to achieve a greater number of efficient units would be to allot land to farmers who had gone through an appropriate course of education in agriculture, to expand the Farm Apprenticeship Scheme from its present pilot level which has gone on for far too long into a full blown national scheme The land for these purposes would be available if we had a proper pension scheme for elderly farmers instead of the travesty of a scheme that we have at the moment

The Mansholt Plan has made us all think of the future pattern of farming and when we think that countries with a much smaller proportion of their population engaged in agriculture are still suffering a rapid decline in agricultural workers, the farming community must face up to the fact that changes will come Farmers do, however, think that the State should cherish its citizens more equally Industrial workers have an ever improving pattern of retraining schemes, redundancy benefits and so on, whereas the agricultural worker who has to leave has no alternative but emigration This discrimination should cease if the farming community is to be expected to co-operate fully in a radical readjustment of the agricultural labour force

I have much pleasure in proposing this vote of thanks to Dr Attwood and hope that his paper will stimulate discussion on this very important subject both tonight and on other occasions

Dr Denis I F Lucey, in seconding the vote of thanks, said Dr Attwood has stated that the primary concern of his paper is to develop the criteria which *ought* to determine the level of farm incomes I would therefore have earnestly welcomed a rigorous development from first principles of a consistent set of normative criteria for income distribution both between agriculture and the rest of the community and also within agriculture itself Unfortunately, the basic normative content of this paper consists of but one sentence in which four criteria are suggested—productivity, comparability, social justice and economic viability

Practically the remainder of the paper is devoted to considering measurability and other problems involved in the application of the four suggested "criteria" I am, accordingly, disappointed, since I do not consider the latter a useful exercise until a reasoned dialogue has been held and an effort made to develop a set of generally agreed guiding principles Then, problems in their application could fruitfully be discussed I am all the more disappointed this evening since Professor O'Connor has recently suggested to the Society four other criteria which differ from Dr Attwood's four

In considering the four criteria suggested, I cannot see in any meaningful sense how *comparability* can be offered as a *criterion* Rather would I conceive of the whole discussion in the paper under this heading as raising the many operational problems of identification and measurement which would be encountered if one wanted to apply, say, a *social justice* criterion that agricultural incomes should bear some specified relationship to the incomes of people in some other specified activities

If people are expected to react to the marginal incomes obtainable in various activities, then how useful is it anyway to compare average income levels in two different occupations? Is it not true that it is only meaningful if there is the same variance of income distribution within each of the two occupations? In fact, if there is a larger variance in non-farm incomes than in farm incomes, then a goal of equal average farm and non-farm incomes would (if attained) imply a higher marginal income in farming than elsewhere and would be an incentive for people to move into agriculture from other occupations

The precise reasoning at the end of the discussion on productivity somewhat escapes me Dr Attwood is implying that if the price of purchased inputs had risen at a faster rate, the gross product of agriculture would have risen at a faster rate If this is so, how useful is gross product as a measure for these purposes? Obviously, what has happened is that as the price of these purchased inputs became cheaper relative to labour, these inputs were substituted for labour by farmers in a series of rational decisions The gross product measure does not take all these substitutions into account

I deeply doubt the usefulness of standard man days for measuring the potential employment of a farm They are computed by reference to the actual enterprises on a farm Does not the use of SMD figures imply that there are no economies of size in the various farming enterprises Additionally, does their use also imply a constant ratio of labour to other inputs, a constancy which does not exist, as is clearly shown in Table 1

In the first paragraph of the discussion under economic viability Dr Attwood states that a commercial firm can adapt policies to provide the wages and salaries it wants to pay its employees, whereas the State can only indirectly affect the policies of individual farm firms This seems remarkably like suggesting that the State is the employer of all those who labour in farming

Finally, I am pleased to second the vote of thanks to Dr Attwood By presenting this paper, which closely follows that of Professor O'Connor, he has done us the valuable service of focusing our attention on this important topic He has demonstrated that there are many aspects of the topic which need clear definition and analysis for further objective discussions to occur In addition, he has demonstrated the need for additional statistical series which would be needed were such an incomes policy for agriculture to be adopted

Dr Attwood The discussion seems to have been concerned with the semantics rather than with the practical issues in an agricultural incomes policy Of course it is important that we use words in a way which have an agreed meaning, but this is no substitute for the careful consideration of the economic realities which lie behind the words, and the implications of these realities for the further development of our economy What is needed if agriculture is to participate in some form of national incomes policy is a set of guiding principles as a framework within which such a policy towards agriculture could be evolved These principles must be capable of practical application in the examination of the case put forward for improvements in farm incomes and this will inevitably involve some simplification of the economic and social issues which are involved

My paper basically is a consideration of the issues which in practice tend to dominate discussions on farm incomes and explores some of the problems involved in a more formal approach to these issues A considerable degree of self discipline is required if we are to avoid, on the one hand, the scoring of the maximum points for either side in the contest between the parties involved and, on the other hand, the search for the ultimate economic truths which, if found, would resolve all the many complex issues involved The translation of the generally accepted objectives of our agricultural policy into day-to-day decisions is a particularly complex task, in which the immediate pressures of our current economic circumstances must inevitably play a major role In this process, the need to see the basic problems and opportunities as clearly as possible must always be pressed very vigorously in the face of the somewhat confused debate on the steps which should currently be taken to develop the agricultural industry

APPENDIX

TABLE 1

AVERAGE FAMILY FARM INCOME PER FARM ACCORDING TO LEVEL OF S M D s

Average No of S M D s per farm	Average No of Labour Units per farm*	Family Farm Income per farm	No of Farmers in Survey
0– 100	0 78	97 5	151
100– 150	0 98	162 2	154
150– 200	1 16	226 6	142
200– 250	1 27	305 0	126
250– 300	1 40	402 2	132
300– 400	1 36	469 0	162
400– 600	1 82	718 8	219
600– 800	2 25	1011 7	130
800–1000	2 18	1373 6	67
1000–1200	2 58	1714 1	41
1200 & over	3 39	2106 1	69

* Including Hired Labour, whose wages are *not* included in Family Farm Income

SOURCE An Foras Taluntais Farm Management Survey, 1966-67