ADJUSTMENT POLICIES IN EUROPE

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Abstract

This paper is focussed on a set of policies, some specifically agricultural, others taking the form of special provisions within, or exceptions to, economy wide measures that affect adjustment in the agricultural sector in a selection of European countries. The policies are those that affect entry to and exit from the sector and cover measures affecting both land and labour. These are predominantly taxation and social security measures (including specifically agricultural early retirement schemes), and the plethora of other laws and regulations that control land purchase, lease and conversion. The choice of countries has been determined mainly by the availability of information (France, Germany, Ireland, Norway), but those singled out for detailed treatment are generally those where there is significant intervention with a view to directing the movement of resources in and out of the sector. The paper will describe the measures and will attempt a qualitative assessment of their likely effects in a trade liberalisation or reform context. Before the country sections are embarked on, the paper describes some of the cultural, historical and structural features that are important to understanding the "adjustment" debate in Europe.

Introduction

European agriculture is predominantly family based. Families own a large proportion of the land they farm although this varies considerable from country to country (Table 1). Land changes hands rather infrequently and, now that exit from the sector is occurring much more slowly than during the decades of rapid adjustment, mainly through transfer or inheritance within families. A relatively small share of farmland becomes available on the open market as a result. Adjustment occurs through non-entry and retirement decisions and much less often during a farming career. Farms are relatively small, at least compared to the standards of North America and Oceania although there are exceptions also to this general rule (Table 2).

These and other features of European agriculture reflect an enduring attachment to the idea of the family farm. It is widely thought that farms organised around a family unit are superior, in social and even in business or economic terms. More recently, the superiority of the family model has been expressed in employment and rural development terms — the family farm is a more effective defence against rural depopulation or "desertification". There is also a strand of opinion that believes that family run farms are better placed to provide public goods associated with agriculture, in other words that family farms are, *a priori*, more multifunctional that other types of farm businesses.

One result of this is that the concept of adjustment and adjustment policy in many European countries is rather defensive. The overarching objective is often to keep the maximum number of farm units in the sector and to keep their family structure. In parallel, the creation or maintenance of a viable, competitive sector, capable of providing "reasonable" or "fair" standards of living also features prominently among stated objectives. The first objective has led, in many instances, to a complex set of measures that tries to manage the transfer of land (both "who" and "how"), the size of farms, and the way in which farm businesses are organised. The second objective (in addition to market support policies and direct payments) is pursued through investment measures, and through training, the latter generally directed at improved technical and business performance within the sector.

[1] The views expressed in this paper are those of the author and are not those of the OECD or of its member governments.

With ever advancing technology and falling real prices in the sector there is clearly some risk of conflict between social or structural objectives related to farm size and business structure and objectives of a more economic nature concerning competitiveness and viability. The former are rarely updated in time to reflect technical and economic developments, thus threatening the viability of the very farms they are supposed to preserve. The latter – the search for competitiveness - would imply that farm businesses should be free to expand or to choose business models other than family-based. Clearly contradictions may arise. An obvious example is when a country imposes a physical limit on farm size, while at the same time assisting on-farm investment in labour saving buildings and machines, the risk being that farms are unable to reap economies of scale.

Many such ambiguities exist in European agricultural policy. Daucé *et al.* express this very eloquently in the introduction to an article analysing early retirement programmes for farmers in France "Concerning employment, structural policy in agriculture has always been split between two contradictory objectives; on the one hand policy aims to bring about the modernisation of agricultural holdings through investment subsidies, hence the substitution of labour by capital, but on the other hand, and sometimes contemporaneously, measures are taken to prevent the emergence of strong demographic imbalances in rural areas, incentives are put in place to encourage the installation of young farmers". (The author's translation;)

It follows from the defensive or conservative nature of attitudes to agricultural structural questions that there has been little or no development of adjustment policies whose purpose is to assist inefficient resources to quit the sector. There is only reluctant acceptance of the inevitability of farm consolidation and labour loss. Such developments are more lamented than welcomed, especially if they are occurring rapidly. Hence, we find little evidence in European countries of training programmes that aim to assist farmers to leave the sector other than through retirement. Neither has there been much development of business restructuring measures that allow failing farms to be liquidated in an optimal way. Measures preventing the conversion of agricultural land to other uses are more common than measures encouraging other uses. Measures to help farmers to stay in the sector, even when resource endowments and the economic environment are persistently unfavourable, are common. This is another aspect of the policy incoherence that can result from attempts to manage exit and entry of key production factors.

France

France is a good example of a country with a strong attachment to the notion of the family farm. There is also strong commitment to balanced rural and regional development, and to preventing rural depopulation. Although the degree of emphasis varies according to the moment and the political climate, there is broad consensus that agriculture's role in rural development is key to ensuring that those goals are met. Reflecting this there is a complex web of policies, some relatively recent, others with their roots a long way back in history, all of which affect the adjustment capacity of the sector in one way or another.

Policies affecting farmland mobility

Inheritance laws

France is one of a group of countries where inheritance laws require an equal division among all the children of the estate of a deceased person (OECD, 1998). This does not necessarily lead to the fragmentation of farms as various alleviating measures have been put in place over the years to prevent this happening. If one of the heirs is willing to take over the farm business he must pay compensation to his coheirs. However, the law allows the land to be valued at about half its open market value. Additional provisions allow the incoming farmer to be compensated for the years during which he may have already worked on the farm prior to taking over from the deceased parent and/or to spread payments to coheirs over a number of years. GFAs (*Groupement familiaux agricoles*)

have been developed as a business model that allows a single operator to run the farm, while the co-heirs retain ownership.

Nonetheless, there would seem to be some evidence that younger farmers in France (and in other countries where the rules governing inheritance are the same), are found to have much higher debt levels than in other countries where it is more usual for well established farmers to take on higher levels of debt (Blanc *et al.*). Despite the measures to alleviate the burden imposed by the "egalitarian" inheritance rules this particular aspect of French law (which applies to all property and not just to agricultural land) would seem to impose significant costs on those hoping to enter the sector by succession.

Purchase and sale of land

France does not have general agrarian land legislation to control farmland ownership, or to control changes in farmland operators. In reality, however, regulations and institutions exist that have a significant impact on land operations. For example, the institutional status given to the SAFER (*Sociétés pour l'aménagement foncier et l'établissement rural*) is important in the French farmland market (SAFER? 2003). These organisations were set up in 1960 as non-profit public corporations owned by the government and controlled by farmers unions, mutual organisations and other administrative or agricultural entities such as agricultural banks. Their principal objectives are to help certain farmers expand farm scale, facilitate settlement or maintenance of viable farm units and thereby improve agricultural structures through buying and selling operations in the farmland market. There are currently 26 SAFERs.

Any landlord wishing to sell farmland must inform the relevant SAFER two months in advance. The SAFER may itself purchase the land if it considers that desirable from a structural point of view, pre-empting all other possible buyers, other than the tenant of the land. All land acquired must be resold within a given period either to new farm entrants or to foster sustainable farm units. No specific standards define eligibility to buy land from a SAFER but the underlying aim is to foster an ideal type of holding which is defined by the law as "a family farm holding with personal liability". This notion is based among others on a minimum settlement acreage or SMI which differs from region to region. In recent years the powers and mission of the SAFER's have been extended to cover environmental management of land.

SAFERs have been very influential in the French land market in some years in the early 1990s accounting for as much as 25% of all farmland purchases in France. According to the most recent data they purchased 23% of farmland coming on the market. Of those purchases, 85% were amicable in nature and 13% by pre-emption (a form of compulsory purchase). Half of the lands disposed of most recently have gone to "young farmers" with the rest being used to increase existing holdings.

The impact of the SAFER is difficult to gauge. The extent to which they impede or facilitate farm consolidation probably varies from region to region and *département* to *département*, reflecting the local composition of the boards and local conditions and attitudes. Reflecting this, SMIs (minimum settlement areas) seem to be quite different from region to region. For this paper levels ranging from 90 hectares (Ardennes) to 25 hectares (Vienne) to 18 hectares (some parts of the Pas de Calais) have been found. There are also significant differences in the extent to which farms are prevented from becoming bigger. Local authorities seem to also have the power to intervene in land market operations that would result in farms becoming bigger than some multiple of the SMI. Certainly, the institutions and regulations in place are sufficient to allow micro management of land markets but the extent to which they actually do so in practice is difficult to determine. A thorough study of changes in farm structures at disaggregated level would be necessary to come to any conclusion on this point.

There do not seem to be any other provisions, other than zoning, that affect the uses to which agricultural land may be put. The SAFERs have a specific role to monitor conversions to alternative

uses and is actively engaged in this domain. However, conversions continue to represent a very small proportion of the land bank managed by these organisations — less than 5 000 hectares in 1999.

Taxation

There are provisions within the tax code that enable farmers to choose between several different methods of calculating farm income for income tax purposes (Anderson et al, 2003). The possibility to use a "notional" calculation that is available to farms whose turnover is below a certain threshold, is generally thought to convey significant benefits. It is used by 510 000 farms. Parsche *et al.*, suggest that income estimated using this simplified method may be 50% lower than using proper accounting procedures. Given that this measure is available only to the smaller farms it may well have significant impacts in terms of the incentive given to remain in the sector, although it should be noted that smaller farms are, of course, also those likely to have no or little tax liability anyway. Other provisions of the income tax code that may affect adjustment include the concession to young farmers whereby they are allowed to reduce their taxable income by 50% for five consecutive years following installation.

Social Security

There is a separate "regime" for social security for French farmers in the sense that there is a separate fund. This fund reports a huge deficit — only 18% of the expenses of the system are covered by its receipts and the remainder is met by the budget of the Ministry of Agriculture. This is, in part, a reflection of the demographic structure of the farm population and not necessarily the result of any explicit intention to support the sector through the social security regime. Nonetheless, prior to 1990, contributions to the system were on a "cadastral revenue basis" and therefore much lower than if actual incomes had been used. A reform implemented in 1990 changed the basis to actual professional income and also allowed retirement at 60 (it was 65 before) on condition that the requisite number of years of contributions had been made.

Most of the expenses of the system relate to health insurance (39%) and to old age pensions (56%), systems to which the farming population, in so far as could be ascertained, have access on the same basis as other French people in terms of the quality/quantity of the services delivered. Therefore, as the system is essentially insurance based, an old age pension can be claimed without any obligation to cease activity, and probably does not have a dramatic impact on exit decisions.

Agriculture specific adjustment schemes; Installation and retirement

France has long enthusiastically implemented programmes favouring the installation of young farmers and the early retirement of older farmers, often in parallel. These linked programmes are operated with structural adjustment rather than social objectives in mind. The emphasis continues within the framework of the national programme for rural development in the context of the second pillar of the CAP(EU Commission). Of the total budget of the National Rural Development Programme, France plans to devote a combined total of 18% to early retirement measures and to installation assistance to young farmers.

An insight can be gained into French attitudes and policy from the experience of the implementation of the early retirement programmes that were made possible under the accompanying measures to the first CAP reform in 1992 (Daucé *et al*, *opus cit*.). The first phase, which came to an end in 1994, was highly successful in the sense that 43 000 farmers, a third of the eligible population, took early retirement and most of them, by doing so, improved their income. 1 300 000 hectares were released for redistribution to other farms, 60 000 of whom received additional land. However, most of those acquiring the land were already established farmers, albeit recently installed in many cases, and the same period saw a sharp fall in the number of new installations. This outcome was considered undesirable and the scheme was drastically changed in favour of the installation of young farmers on the land made available. In the first scheme retiring farmers received a fixed payment plus 500 francs per hectare (up to 50 hectares) while the revised scheme introduced a differential per hectare payment that varied from 850 francs if the person taking up the lands was a newly installed farmer (less than

one year) and only 200 francs if he was already established more than 10 years. Installations recovered in the following years, although they have never since reached the high levels of the early 1990s.

Both the emphasis on getting new farmers into the sector and the alarm that resulted because existing farmers were expanding at what was considered an undesirable rate, help to understand attitudes and objectives in terms of structural change in the French context. It is also noteworthy that, as with the activities of the SAFERs, policy implementation would seem to vary geographically. This is due to physical and economic factors but also to attitudes of the individuals and institutions involved in decision making at the different levels. It is also worth noting that more than two-thirds of the young farmers "benefiting" from the different programmes were taking over lands already in the family. The role of the programme in preventing the break-up of holdings must, therefore, be relatively minor.

The purpose of this note is not to evaluate the programmes in terms of their own objectives but to try to gauge their impacts in terms of farm structure. The general conclusion in the literature, given the dominance of within family hand-overs, is that the combined effect of retirement and installation measures is mainly to accelerate the process, rather than to change the direction. In other words, there has probably not been a significant net increase in the number of young farmers entering the sector, rather they have done so earlier than would otherwise have been the case. The whole system favours within-family transfers. This is reflected in a large number of laws and regulations and also probably exists although less visibly, in the local and regional institutions charged with the management of agricultural and land policy. In any event, a policy that aims to take labour out of the system with one set of measures and re-insert it with another, is inherently paradoxical.

Germany

Policies affecting farmland mobility

Inheritance laws

German law allows unequal inheritance and therefore farms may be passed on without division although usually there is an obligation to provide monetary compensation to siblings or other coheirs. This is the case under specific laws in several north-west Lander, which are based on a "principal heir" system. The testator does not include the farm in the community of property but passes it to a single or principal heir who may be determined by a court. To qualify he may have to show that he can manage a farm, has worked on a farm or has a farming qualification. But even in these Lander, the testator may subordinate the farm to the ordinary inheritance law so that it is divided equally among co-heirs.

In other Lander, the farm is, in principle, divided but again it can be left to just one heir and a determination is made of the claims of co-heirs with a view to compensation. Current practice is that a single heir to the farm may have to make monetary compensation to siblings but the level of the compensation depends on his ability to pay and the extent of his obligations to his parents. It is not based on market value although German legislation allows that the proceeds of land sold subsequently at market value should be shared if a sizeable capital gain is made.

These differing practices (and the fact that inheritance laws were different in earlier historical periods) have led to strong regional differences with break-up of farms and therefore a pattern of smaller farms in the south and preservation intact and therefore bigger farms in the north.

Purchase and sale of land

Germany maintains statutory controls over any change in ownership or lease of agricultural land. Authorisation for any transfer of farmland rights may be withheld in three cases:

- If the transfer would lead to an undesirable distribution of farmland – *e.g.* transfer to non farmers is generally considered undesirable.
- If the transfer would lead to undue fragmentation of land (a minimum of 1 hectare) or excessive aggregation (more than around 400-500 hectares, but only in the former Federal Republic).
- If the sale price is thought to be seriously disproportionate to value.

The same criteria may be applied in the case of farmland lease.

Lander have state-owned organisations (*Siedlungsgeselkschaft*) that buy farmland from farmers and non- farmers and resell it to farmers. They may intervene only with respect to land parcels in excess of 2 hectares and when no farmer is in the market for the land in question. Pre-emptive rights may be exerted over non- farmers but not over farmers.

Subject to conformity with physical planning rules no particular authorisation is required to convert from agricultural to non-agricultural uses. It should be noted however, that the general philosophy behind the framework for structural policy that is worked out between the federal and Lander levels embodies an important principle in relation to farmland, namely that a rustic agriculture, characterised by family farming dependent on soil cultivation and with limited numbers of livestock, should be guaranteed as an important part of the national economy. The need to prevent excessive depopulation is also expressed as an important principle of land use policy. Policies affecting agricultural structures including land consolidation are part of the overall integrated land use planning system

These principles are implemented at the level of the Lander and municipalities. For example an Agricultural Area is generally excluded from non-agricultural development and can be converted only to a limited extent. These rules are designed primarily to protect farmland from urbanisation. Similarly it is not permitted to build non-agricultural buildings on areas designated as Undeveloped Areas.

Taxation

As in France, farms below a certain size threshold may be assessed for income tax on a flat rate basis (Anderson *et al.*, *opus cit.*). Half of all German farms opt for this method which is based on the economic valuation of the land (these values were not updated between 1964 and 1999). Since 1999, a system is in place that is supposed to reflect the quality of the land. It is generally thought that this system conveys significant advantages to the farms that use it. It is not available to firms that farm, only to family run businesses.

German farmers also receive significant benefits through the property tax system which for farmland is based on 1964 values.

Social Security

As in France and Italy, the social security system for agriculture is run as a separate regime or fund, with deficits (forecast as 73% in 2003) met by the Ministry for Food Agriculture and Forestry (now the Federal Ministry for Consumer Protection, Food and Agriculture). One of most notable features of the social security system for agriculture in Germany is that it has been designed with explicit structural policy goals in mind. In particular, a farmer reaching retirement age can only claim his pension benefits if he has transferred his farm to his successor. Other structural features have been included in the policy design at different times. Between 1965 and 1983, structurally improving transfers of land were rewarded with a higher pension for example (Tangermann (ed.) 2000).

In addition to structural objectives, the large state subsidies are associated with an explicit income distribution objective as a complement to the income support policies of the EU. Even when it was introduced in 1957, the objective was structural –the fact that farmers had no pension entitlements meant that they continued farming to ensure a minimum livelihood and this constituted a significant obstacle to renewal and adjustment in the sector.

Although the social security system for farmers reports large and growing deficits, the old age pensions provided are only half of those received by others, the assumption being that farmers have additional private provision or that the successors to the farm will assure the needs of retired parents. The system, therefore, contains both incentives and obstacles to easy transfer between generations. It is noteworthy nonetheless, that Germany has less of a problem of elderly farmers than many other European countries, likely due, in part, to these measures

It has been estimated by BMVEL (as reported by Anderson et al) that the combined value of taxation and social security concessions to German agriculture was in the region of 260 euros per hectare or 8 000 euros per man year in 2001. The great bulk of these benefits arise through the social security system.

Education

German is one of the very few European countries that has implemented a specific assistance through training for farmers to leave the sector for employment elsewhere.

Norway

Policies affecting farmland mobility

It is of interest to note at the outset that much of mainstream agricultural support in Norway is designed to favour the survival of small farms ("small" farm being a relative term in a country where the average farm size is 12 hectares). This is the case for a wide array of area and headage payments.

Inheritance arrangements

The Allodial Act pursues two goals; securing farm population in all districts by maintaining owner-operated family farms and preventing undue fragmentation of farmland. Priority rights are given to the eldest child to inherit the farm undivided, the law precluding any choice on the part of the testator. However, if the new owner decides to sell, allodial rights pass to relatives. Anyone taking over a farm pursuant to their allodial rights must live on and manage the farm for at least five years.

Purchase and sale of land

The Concession Act of 1974 aims to protect the limited farm area. To acquire farmland other than through inheritance or other type of transfer within the family requires a concession granted by the king. The acquirer must have a professional agricultural qualification and must live on and manage the farm for five years. The Concession Act also aims to control the prices of agricultural land in order to limit the capitalisation of support into land values. The Land Act prevents subdivision of farms without approval of the authority and also lays down conditions for how land should be farmed – in conformity with normal farm management practices. In other words the owner of cultivated land has an obligation to preserve it and to actually use it for farming. If the latter is not observed the state may expropriate the property and transfer it to others. The state has pre-emptive rights over any real estate covered by the Concession Act , including on farms and farmland to be used for structural rationalisation

Taxation

Norwegian farmers are granted a number of special concessions under the income tax system although there does not seem to be any differentiation by size of farm. The main item is a special deduction from the taxable business income, up to a maximum of NOK 61 500. In practice this exempts smaller farms and was explicitly devised to compensate the sector for reductions in price and other types of support.

Profits from the sale of agricultural land are exempt from tax if it has been owned by the vendor for ten years or more. Agricultural land is valued at 75% of market value for the purposes of inheritance taxes, while other types of property are taxed at full value. Municipal property taxes may not exceed 0.4% of the value of agricultural land but may be up to 0.7% for other types of property.

Social Security

The farming sector receives more or less the same entitlements as other sectors in Norway. However, the contribution rate is lower at 7.8% of income, while the rate for other types of businesses is 10.7% up to a certain income level and 7.8% thereafter.

Ireland

Policies affecting farmland mobility

Inheritance

Ireland belongs to the common law group of countries that accord total testamentory freedom. There is therefore no legal barrier to the transmission of farms intact. If there is a successor to the farm from within the family he usually inherits the entire farm although he may have already discharged a significant responsibility for supporting aged parents subsequent to their retirement. Economic growth in recent years has seen dramatic rises in land prices -almost threefold in the decade to 2001 - and a large fall in the area of land defined as agricultural (DAF 2003). This means that amicable arrangements allowing one sibling to acquire the family land may have become less common as land values, especially those close to urban areas rose.

Purchase and sale of land

Other than some restrictions on the acquisition of land by non EU citizens there would not seem to be any particular measures or statutory bodies involved in farmland transfer, purchase or sale in Ireland.

Taxation

Farmers may choose to be assessed for tax on the basis of average profits and losses over a three year period, but only if the farmer or his/her spouse do not have another trade or profession. There are generous farm building allowances equivalent to 15% of the capital expenditure in the first six years with the remainder written off in the seventh year. There are tax advantages to farmers who agree to reduce pollution.

There is considerable evidence that, for the same income, the tax burden on the farm sector is significantly below that on other rural households, on urban households or on the state average household, although it is difficult to assign this outcome to any particular feature of the income tax system. Many farms do not keep or submit any accounts to the taxation authorities and hence remain out of the tax net unless and until the tax authorities undertake to assess them.

In addition to these general aspects of the income tax system there are several tax concessions whose purpose is to encourage the transfer of land to young, trained farmers. These are as follows

- 100% stamp duty (a tax chargeable on documents associated with a sale) relief on transfers of agricultural land and buildings to young trained farmers
- 90% relief from capital gains tax
- 100% stock relief for young farmers for four years after transfer
- Income tax exemptions on the rental income of land leased by farmers over 55 to non-relatives
- Retirement relief on capital gains tax for farmers over 55 years old

More generally, there is generous relief from capital gains tax if the farm (or any other business) is disposed of within the family. For example, there is no limit on the exemption from capital gains tax if a farm is sold to the seller's child. Stamp duty is halved if transfer of any real property including agricultural land is within the family (and zero if transferred to the spouse).

There is significant relief also on Capital Acquisitions Tax (including gift and inheritance taxes) which allows the market value to be reduced by 90% to agricultural value. The thresholds beyond which tax becomes payable vary with the relationship to the person making the gift or inheritance and is highest for property willed to parents, children or grandchildren. These concessions are withdrawn if the agricultural property is sold within six years of the gift or inheritance.

Social Security

There are no special rules governing social security contributions which seem to be made on the same basis as other employers or self-employed people. However, given the relatively large proportion of holdings for which no accounts are submitted, it seems likely some farmers do not make social security contributions on their farm income. Entitlements may be earned through other activities. Additionally, Ireland has a parallel system of unemployment assistance and non-contributory old age pensions which are uninsured (*i.e.* they are not based on earned entitlements) and subject to means test. In the past, large numbers of small farmers received this type of benefit.

Ireland's Department of Social and Family Affairs operates a specific targeted income support mechanism for the farm sector. The scheme is means tested with payment rates linked to general social welfare rates but involves a significant number of "income disregards" The effect is probably to make it easier for farm families to qualify than for other families suffering low incomes. Specifically, there are generous disregards for children, a 30% general income disregard and a partial or full disregard of income from the Rural Environment Protection Scheme. The avowed purpose of the scheme is poverty alleviation and as such its main recipients are likely to be individuals or families who have very limited possibilities to either improve their income situation within the sector or by leaving it. In any case, the purpose of the income disregards is to retain some incentive to increase income from farming.

Specific installation and retirement measures

Like France, Ireland implements installation and retirement policies vigorously with a view to improving farm structures and maintaining viable population levels in rural areas. A number of measures favour early farm transfers in addition to the tax measures listed above. These include an installation allowance and priority access to quotas. Under EU early retirement provisions, a pension of up to 13 515 euros may be granted for up to ten years on transfer of the farm through lease, gift or sale. Rental income in these circumstances is exempt from income tax and there is retirement relief on capital gains tax of up to 476 250 euros. The demographic structure of the sector has been improving

in the past decade, although whether this is due to the various measures in place, demographic change or overall macroeconomic developments is difficult to say.

Conclusion

This note describes, for a selected group of European countries, a set of policies that, by design or otherwise, influence entry and exit decisions in the agricultural sector. The policies covered affect both land and labour and include policies regulating farmland mobility/transfer, social security policies with the emphasis on retirement pensions, taxation with the emphasis on property, inheritance and capital gains taxes and those aspects of income tax law that may also affect exit and entry decisions. Specifically agricultural programmes for the assisted installation of young farmers or the early retirement of older farmers are also covered. Remarkably little research has been found evaluating the effects of these measures, either individually or as a whole.

In addition to the measures described above, virtually all European countries implement agriculture specific investment grants or interest concessions. These are not described in detail here. They mainly have their origins in the Manschold plan which sought to assist, through investment aids, only those farms thought capable of eventually achieving viability. Such programmes continue currently in the European Union in the context of the rural development programmes that constitute the second pillar of the Common Agricultural Policy.

Four countries have been covered, of which three are members of the European Union. The countries chosen do not seem to be exceptional in Europe in terms of the degree to which governments intervene in land markets or in the extent to which the taxation and social security systems are used for a combination of income support and structural purposes. Many if not most European countries avow an attachment to family farming and relate that to avoiding rural depopulation. The United Kingdom, not treated specifically here, is the only real exception. There, agriculture is more or less fully integrated into general economy wide policy frameworks designed to incorporate all types of self-employed or business entities. In the UK, there is a wide variety of business models in farming, and rural development is not perceived as being dependent on agriculture to the same extent as in some other European countries.

None of the countries examined seems to implement positive adjustment policies designed to assist inefficient labour to leave the sector. In other words, business restructuring measures, including retraining for another occupation, are rare or non-existent. Possible exceptions are local training efforts for farm-related diversification, such as for green tourism. The purpose of these measures relates more to keeping labour on farms, albeit with a diversified activity set. As noted elsewhere, measures focussing on labour entry and exit are concentrated on installation/early retirement, and in practice are often used to facilitate earlier transfer of farm management within families. Labour adjustment seems therefore to be still largely through retirement and entry/non-entry decisions.

Neither does any of the countries examined welcome the conversion of land into non-agricultural uses. Indeed, if there is a common thread that characterises the measures it is that they aim to keep land in agricultural use. All the countries studied except Ireland have specific land management measures that go in this direction and all have tax provisions that favour transfer within the sector (and within the family too). Many operate under the assumption that it is better to get older farmers out of the sector and younger farmers in, although there is little evidence to suggest that such measures do anything but accelerate a process that would in any event occur, while generating significant additional transfers from taxpayers and consumers. None acknowledges non-agricultural use of land as a rural development tool. Similarly, few seem to welcome entrants to farming from non-farming backgrounds — which may also constitute a missed opportunity in rural development terms.

Another observation – not for the moment tested in any way – is that there is a strong correlation between farm size and the degree of intervention in structural adjustment questions, in the sense that the greater the degree of intervention the smaller the size structure. Persistently small farms may reflect historical, climatic and topographical factors in which case the observation is no more than a tautology. But persistently small farms may also be the fruit of structural policies that have not kept pace with technological, demographic and economic development. A look at Korea and Japan, although not the subject of this paper, suggests that the question should at least be asked. Preliminary investigation of the same set of policies in those countries has revealed an extraordinarily complex set of interventions. At first sight, these would seem to be counter-productive with farm consolidation measures struggling against land laws and fiscal measures that go in the opposite direction.

In attempting to comment on the likely impact of the different measures described here, it is important also to restate the general context. Agriculture is supported through a complex set of agriculture specific measures that result in transfers to the sector in the region of 36% of the value of gross receipts (including support) in the European Union and 71% in Norway (OECD 2003). This support is delivered through prices (sustained by protective border measures), different direct payments that are more or less decoupled from production, input subsidies and other measures.

Clearly these agricultural policy interventions influence sector structure, although precisely how or in what direction is difficult to establish. It is therefore even more difficult to disentangle the effects from specific structural measures or from more general non-sectoral policies. Nonetheless, it is clear that significant capitalisation of support into land values has occurred. The price of land has been inflated to the point where many governments believe that its market value has little or no relation to its economic value in agriculture[2]. Similarly, measures designed to restrict production in different sectors have created rents (dairy quotas, headage limitations for suckler cow premia, etc) that constitute significant entry costs. It is here that one of the most fundamental paradoxes in agricultural policy is to be found. Governments try to offset inflated entry costs, caused, at least to some extent, by mainstream agricultural policies, through a second string of measures that are structural, fiscal and social. Action on both fronts, an unravelling of agricultural specific support and protection on the one hand, and an easing of restrictions on land transfer and in particular on conversion to non-agricultural uses, could have significant beneficial effects in making the agricultural sector itself more responsive to change. In parallel there could be significant spin-offs in terms of the development of non-agricultural activities in rural areas.

2. It is not only agricultural support that influences land values, pressure from development and urbanisation can also be important in some countries.

Table 1. Share of farmed land owned by the farmer, 1997

	%
Germany	37
France	35
Ireland	87
Spain	72
Italy	78
United Kingdom	63
EU-15	59
Norway	75

Table 2. Number and area of holdings, 1997

	Average size	% of total < 5 ha	Total number of holdings
EU-15 (1997)	18.4	55	6.9 mio
Germany (1997)	32.1	31	.5 mio
France (1997)	41.7	26	.68 mio
Ireland (1997)	29.4	7	.15 mio
Italy (1997)	6.4	76	2.3 mio
United Kingdom (1997)	69.3	15	.23 mio
Norway (1995)	12.3	n.a.	.067 mio (2000)

Source: EU Commission, *The Agriculture Situation in the Community*, 2001; Norwegian Agricultural Economics Research Institute, *Norwegian Agriculture Status and Trends*, 2001.

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