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IDEAS ON LAND POLICY

Robert O'Connor

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Ideas on Land Policy

by

R. O'Connor

Though the contribution of Agriculture to National Income and employment is declining in proportional terms it is still a very important sector of our economy contributing almost one third to total exports in recent years. The food and other agriculturally based industries employ about 50,000 people while the spending of income from Agriculture gives considerable indirect income and employment in the smaller towns. A major objective of policy should therefore be to increase agricultural output through the creation of an efficient Agricultural sector.

Over the past twenty years or so agricultural productivity per labour unit employed has increased considerably. There has also been an increase in output per acre of land but as might be expected this has been much smaller than the increase in labour productivity. Looked at from an international point of view our overall growth rate has been quite good (see Table I). Over the period 1967/80 we were second only to The Netherlands within the

Table I: Gross Value added per Hectare 1970 and annual growth in final production 1967-80 in EEC Member States

Country	Gross Value added per Hectare 1970	Annual growth in Final Production
	UA	%
Ireland	114	2.96
UK	161	1.20
France	278	1.84
Denmark	296	1.45
West Germany	437	1.71
Italy	490	1.69
Belgium Luxembourg	587	1.60
Netherlands	800	4.30
Euro 9*	398	1.90

* Euro 9 averages are the author's estimates.

Source: Sheehy 1982 Co-responsibility and the future of Irish Agriculture. Paper read to the Statistical and Social Inquiry Society of Ireland, November.

EEC and substantially better than the UK and Denmark. However Ireland started from a very low base and when we consider the heavy investment which took place in Agriculture particularly since we joined the EEC, the expectation would be for a higher growth rate than that obtained (See Table 2).

A peculiar feature of the Irish economy is that whatever growth is occurring seems to be taking place on a limited number of farms. Production on the remainder is almost stagnant. In a paper read to the 1976 AFT Autumn conference, Dr Andy Conway said that "generally farms of less than 50 acres with poor household structure (without children and in which all the males are over 45 years, and having less than one labour unit) showed no significant growth in the recent past" (Conway 1976). Such farms were estimated to contain one third of the farm land area of the country in 1972 and the indications are that the position has not improved since then.

Table 2: Annual Capital invested in Agriculture and numbers engaged 1968-1980

Year	Land Improvement	Building	Machinery	Other	Total Investment	Numbers engaged
	£m	£m	£m	£m	£m	(000)
1970	5.9	9.8	25.6	1.9	43.2	263
1971	6.5	15.4	24.0	1.4	47.3	254
1972	5.8	16.9	32.5	2.6	57.8	248
1973	6.2	16.7	40.1	9.7	72.7	241
1974	7.5	13.3	43.3	11.7	75.8	235
1975	8.2	25.8	53.8	12.9	100.7	232
1976	13.3	48.3	83.5	21.1	166.2	226
1977	15.7	59.2	135.3	27.1	237.3	222
1978	19.5	63.7	168.1	37.9	289.2	220
1979	25.1	110.9	173.4	45.8	355.2	215
1980	37.4	97.1	130.2	33.0	297.7	206

Source: Department of Agriculture and C. S. O.

Commenting on these findings the Committee on Land Structure Reform (1978) said

"The problem of achieving agricultural development on the low producing farms will not be solved simply by improving farm product prices, increasing the level of investment or applying modern technology. All these are necessary, of course, but they will evoke a response only from those farmers who are able and willing to combine good management with a basic amount of land. To us the barriers to agricultural development in Ireland are traceable to aspects of land tenure, land mobility, farm size, demographic structure and public policies which impinge on land structure". I look briefly at these issues below:

Land tenure:

Owner occupancy is the principal characteristic of the Irish land tenure system. The major consequence of this for land usage is its restrictive effect on land mobility. Access to land is mainly through inheritance and the system of long term leasing common on the continent and in the USA has not evolved here. Furthermore with the abolition of rates the cost of holding land is negligible while small holders are entitled to social welfare, health and other state benefits.

The land market

A recent NESC report (1977) shows that the land market is comparatively small, being of most importance to established farmers who wish to expand their holding. Actually the open market accounts only for about one fifth of the total area changing hands each year and this in turn is only about 3 per cent of the total farmland area in the state. Apart from its limited scale there are other reasons why the free operation of the land market is not conducive to a more desirable land structure.

These include the high price of whatever good land becomes available as a result of the intervention of many purchasers who are not full-time farmers, and speculative buying as a hedge against inflation. Even to-day in the midst of a depression the average price of land is about £1200 per acre, carrying an annuity over 30 years at 15 per cent of £180 per acre. With average family farm income little more than £100 per acre in 1981

a landless purchaser with little money of his own could not pay such a price for agricultural land. Hence high prices preclude access to land except by those with substantial resources.

Farm inheritance

The late transfer of the family holding has long been regarded as a problem in Irish farming. Almost one quarter of farm owners are over 65 years of age compared with 4 - 9 per cent on the continent. Furthermore land ownership does not preclude a person from availing of various social welfare benefits which a person with other property of similar value would not obtain. Late accession to farm management and ownership limits opportunities for a prospective heir to develop the initiative and sense of responsibility necessary for running a farm successfully. This certainly puts a brake on innovation and development. However because of low farm incomes in Ireland few farms can support two families, and so older farmers must hold on to the land.

Part time farming

Part time farming has been adopted on an increasing scale in this country and indeed throughout the EEC over the years. In 1975 as part of an EEC survey on the structure of agricultural holdings the CSO estimated that the number of separate farms 1 ha and over (holdings with rented land included) was about 228,000. Of these only about 67 per cent were operated as wholtime units while the remaining 33 per cent could be classed as part-time, the operators spending less than three quarters of their working time on them.

This high proportion of part time farmers has special significance for land usage particularly on the smaller farms which comprise the bulk of the numbers in this category. Comparisons between the performance of full and part-time farmers, even within the same province and size group, show part-timers to have a much lower intensity of land

use, the farm serving more of a residential function than one of production (Hickey 1975). However a high level of part-time farming is not peculiar to Ireland. It is very common also on the continent where the off-farm income is a useful supplement to the farm income. The same view is taken here and it would be unwise to interfere with the system except to insist on a certain minimum level of husbandry on the part time units.

Short-term Lettings

The establishment of the owner occupancy system of land tenure against a background of Irish landlordism stifled the evolution of any form of long term leasing of land. What has evolved is a system of short-term lettings (11 month letting for grazing, conacre letting for tillage). These existed prior to the major land reforms and have continued to be an established feature of our land holding arrangements.

The great defect of short-term letting is that the lettee must remove his stock or crops at the end of the letting period and seek a new contract for land each year. Land taken for tillage is usually well worked but the real problem arises with land let for grazing. Most of this land is let year after year for low intensity drystock grazing and is contributing very little to overall agricultural production. The area of land let on the 11 months system was 824,000 acres in 1980 and that for tillage, 154,000 acres, the combined area being about 8.5 per cent of the total area of crops and pasture in the state.

Suggestions for improving land use

Most of the suggestions which have been put forward for improving land use are based on the theory that if land can be held without payment of any kind, and if at the same time the owners can draw social welfare benefits there is little incentive, particularly for older people, to work the land intensively or release it from their possession. One way which has been suggested to force improvements in land use is the abolition of dole and non-contributory old age pensions on all holdings over say 15 acres. In my opinion this would cause great hardship in many cases, would be politically very difficult to implement and would be unlikely to achieve its objective. If people are bad farmers or are unable to work, the curtailment of social welfare will not improve their performance; and it is doubtful if it would make them sell the land either. Most would prefer the land to the old age pension or dole. It is unlikely therefore that removal of social welfare would make for greater land mobility. It is now being suggested however that the dole be paid as in the form of livestock headage grants as a means of increasing livestock numbers in the state. This suggestion is worthy of consideration.

Another method which has been suggested for improving land use is through the imposition of a land tax. This suggestion is based on the theory that if people had to pay a tax on land they would have to use it more efficiently or make it available to someone who would. The tax would also have the effect of keeping land prices at more realistic levels.

There are two main difficulties associated with a land tax. The first is a

political difficulty. The farming lobby would scream to high heaven against it and all rural TDs would have to oppose it. However these constraints should not prevent the economists from advocating the system if they thought it would work.

It is difficult to say, however, what effect a land tax would have in forcing better land use. To be effective the tax would have to be relatively heavy. Crotty (1966) proposed a tax on the larger farms of £4 per acre and the withdrawal of all state payments towards agriculture. I estimated at the time that the land tax would cost about £34 million and the withdrawal of the subsidies a further £30 million bringing the total to £64 million which was equivalent to 48 per cent of income from self-employment in agriculture in 1966. It would take an unbelievable spurt in efficiency to counteract this income loss. On the basis of 1982 agricultural prices Crotty's £4 per acre would now translate into about £25 per acre and, even without the withdrawal of state expenditure on agriculture, this would represent about £215 million or about one quarter of income from self-employment in that year. Considering the decline which has taken place in real farm incomes since 1978, and the heavy interest payments, not deducted in arriving at income from self-employment, this level of tax would be a very severe imposition on the agricultural sector. However anything less would have little effect on land mobility considering the value which people place on land ownership. The people really penalised would be the good small to medium sized farmers, not in receipt of social welfare payments. Figures from successive farm surveys show that family farm income on the latter farms are quite modest and a heavy tax would hit those people very hard.

A land tax for the purpose of improving land use is therefore a very blunt instrument, and in my opinion is not a policy to be recommended. More specific measures

aimed at the poorly worked land would appear to be much more appropriate, though, I would not object to the re-introduction of a small land tax in the form of rates in order to widen the tax base and satisfy the demand for property taxes.

In the absence of a heavy land tax, which I assume is a non-starter anyhow, one of the best ways of improving land use is through a revised farm retirement scheme.* Unfortunately the present scheme has proved entirely inadequate and very few people have availed of it.

At the present time a small to medium sized farmer is entitled to farmers' dole, medical card, non-contributory old age pension and all the perks that go with the latter, i.e., free fuel, electricity allowance and telephone allowance in some cases. If he sells or leases his farm under the retirement scheme the amount received for the farm or its estimated value is taken into account in assessing social welfare benefits including OAP. If this value comes to more than £19,000 he loses his right to all the above benefits. He gets a pension under the retirement scheme but this is much less than the OAP and carries none of the OAP perks with it. Maximum OAP is now £1,791 per annum for a single person and £2,691 for a married person. The pension under the retirement scheme is £1,344 per annum for a single person and £2,016 for a married person.

As a result of these shortcomings the retirement scheme has not worked in the past. Nor will it work in the future unless it is revised in such a way as to ensure that the benefits for retired farmers are at least equivalent to what they could obtain if they did not retire. The Department of Social Welfare has been urged by various groups to amend its schemes for this purpose but it has refused to do this on the grounds that it must treat all citizens alike regardless of their source of wealth.

* For details of scheme see Appendix

It is now generally agreed that, if farmers are to be made as well off after retirement as before, the benefits will have to be made available to them by the Department of Agriculture as part of the retirement scheme. Hence if the government is serious about getting under-worked land into the hands of good farmers it must improve considerably the pension benefits from the scheme. Indeed it would be appropriate to carry out a study to determine the maximum pension which would be justifiable on the basis of certain assumptions regarding increased productivity.

However, despite any realistic improvements which can be made in the retirement scheme, this policy on its own will never succeed in bringing about a sufficient degree of land mobility. The non-monetary benefits to an old person of land ownership are so great that they tend to outweigh all other factors. In addition to the social welfare benefits available, an aged landholder will always have a relative or a neighbour to look after him or her, and this is something which can be of inestimable value for many people. For this reason many old people will hold on to their land regardless and on their deaths pass it on to people who will be no better farmers than themselves. There must therefore be some element of stick introduced if people are to be persuaded to give up land which is badly farmed.

In the inter-departmental report (op cit.) it was recommended that standards of husbandry be established and that farmers not reaching these, be given a warning to "improve or else", within some specified period - a year or so. If at the end of that period they had not complied they should be forced to rent or sell the land to an approved person or have it taken over by the Land Commission for distribution among approved persons. Approved persons are people who have had an agricultural qualification or have shown themselves to be good farmers.

Two points follow from the above recommendation. On the one hand we must consider how land use is to be monitored and secondly it must be ensured that powers of compulsory acquisition are retained.

In regard to the first, it is suggested that Land Commission inspectors be empowered to visit all poorly used farms in their districts and compile reports on the acreage involved and the state of land usage. In the course of this survey the owners should be told that unless improvement is forthcoming the land will be taken from them. They should be encouraged to rent it to some good farmer on a long lease, but 11 months renting should not be ruled out if the owners insist that the lands be fertilised and used properly. Indeed all 11 months lettings should be inspected to ascertain how the lands are being used.

In regard to the second point, i.e., powers of compulsory acquisition - it must be ensured that these powers are retained. For that reason the government will have to be very cautious about removing the Land Commission and replacing it by some other kind of Land Agency. The Land Commission by tradition has the powers required, whereas, a new land agency may never be able to obtain or retain such powers. The courts might frustrate any movement in this direction by a new body. Hence, if it is desired to retain compulsory powers, the Land Commission should be retained; though of course, its function can be re-defined, particularly in regard to the distribution of acquired land.

Compulsory acquisition should however be a last resort situation. The cost of purchase is still too high in relation to the earning power of agricultural land and for that reason sale of state land has to be subsidised. This is a debatable policy. It creates political pressure on the land authority and there is a tendency to please as many people as possible by giving a little land to everybody in the neighbourhood

This neither improve land structure nor land use.

Nevertheless the land authority must use its power of compulsory acquisition from time to time in order to show that it has teeth. Its main function, however, should be to promote better land use rather than to create so-called economic holdings. The Land Commission has failed singularly in the latter objective over the years and legislation should now be introduced to release it from that obligation and take on the other.

Long-term Leasing

In recent years great stress has been laid on long-term leasing as a means of improving land use. This suggestion is to be welcomed but as might be expected it is not as clearcut a solution as many people think.

At the present time a farmer can let his land on the 11 months system year in and year out, without any danger of losing title to it. If, on the other hand, he were to let it on a long lease he would require a much higher rent to compensate for any danger of the lessee acquiring title. This may make the lessee's rent very high and thus defeat the whole purpose of the scheme - which is to enable good farmers who cannot buy land to become involved in farming at a reasonably small cost. Good land, under the 11 months' system is now going about £60 per acre. Under a long lease £80 to £100 would probably be required. This is a heavy payment, every year, and would probably be impossible for a person who has no land of his own.

The Minister involved, Mr. Paul Connaughton, in discussing long leases assures farmer that they can get their land back at the end of the lease period if they so wish. If I am a large farmer renting a small acreage there is no problem here, I can give the land back without incurring much hardship.

But, if I am a landless man or a small farmer renting a normal sized farm what happens to me at the end of the lease period if I have to give up the land? My whole livelihood is gone and this is particularly true if I am a dairy farmer with buildings erected on my own or on the rented land. What am I to do with those?

In my opinion, and regardless of what legislation be brought in, a lessee who has had land for six years and whose livelihood depends upon it will have a strong case in common law for retention of the land. Local opinion and the courts will always uphold fixity of tenure. Hence, if a person lets his land on a long lease he need not expect to get it back again in normal circumstances. Probably the solution to this problem lies in the system of share leasing whereby the landlord supplies the land, cows and buildings, and the lessee supplies other stock, labour and machinery with some agreed division of running costs and profits.

This system has many advantages for both parties. If the tenant proves unsatisfactory the landlord can get rid of him when the lease expires and there is no great hardship involved. Dry stock and machinery can easily be sold off or the tenant can take a similar lease elsewhere. From the tenant's point of view the advantages are that his costs are low; he does not have to buy cows or pay rent and at the same time he is not a farm labourer since he owns other stock and machinery and shares in profits.

The share lease system is worthy of consideration and should be examined carefully by the Department of Agriculture.

Summary

I might summarise the discussion by saying that one-third of the land area of the country is being worked far below its potential capacity. The objective, therefore, must be to get a high proportion of this land into the hands of people who can work it well. A difficulty in this regard is that people can hold onto land without any cost and at the same time draw social welfare benefits of all kinds. The suspension of social welfare and the introduction of land taxation have often been suggested as a means of overcoming this problem.

The paper suggests that these measures are neither politically feasible nor likely to be successful. In particular, a taxation policy is too blunt an instrument for this purpose. The tax imposed would have to be very high to be effective and would be a severe burden on good farmers.

It is suggested that policies be directed specifically towards the improvement of land use on badly farmed land; that standards of husbandry be established and that farmers not reaching these standards be compelled either to sell or let the land to people who can be expected to farm it fairly well. Towards this end the payments under the farm retirement scheme should be improved. Also 11 months' renting should not be ruled out if conditions regarding good husbandry are imposed. Finally, compulsory powers of acquisition should be retained by the Land Commission and if people persist in poor farming methods the land should be taken from them. In this case, however, the land acquired should be given to people who are listed as being suitable farmers and not divided out as heretofore among neighbours who are little better farmers than those from whom the land was acquired.

Long-term leasing has recently been strongly advocated as a means of improving land use. A problem of fixity of tenure arises here. What does the tenant do if the lease is not renewed when it expires? It is suggested that the solution to this problem lies in the share lease system whereby the landlord supplies land, buildings and cows, with the tenant supplying machinery, labour and other livestock. This type of lease can be terminated if needs be without much hardship to either partner.

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APPENDIX

Details of Farm Retirement Scheme

To avail of the scheme the owners main occupation must be in farming, he must have worked the holding continuously for at least five years before the date of application and have earned at least half his income from it. The farm must be not more than 45 adjusted acres (though there are exceptions to this) and it must go either to the Land Commission or to a development farmer whose development plan under the Farm Modernisation scheme involves the acquisition of extra land.

To avail of the scheme the farmer must

- (1) (a) Sell or lease for a minimum period of 12 years to a farmer whose approved development plan under the farm modernisation scheme provides for additional land.
- (b) Sell to the Land Commission for cash,
- (2) Undertake to discontinue commercial farming and not to hold or rent any holding of agricultural land.

Benefits

Under 55 years - a premium of 10 per cent of the produce price subject to a maximum of £1500 or twice the annual lease rent subject to a maximum of £3000.

55 years and over - Premium as above plus a life annuity in 1982 of £1344 for a single person or £2016 for a married person.

These benefits are in addition to the purchase price or lease rent of the land.

Additional Benefits

- (1) The annuity may be increased from time to time to take account of any increase in the Consumer Price Index.
- (2) If he wishes, the owner may retain the dwelling house and an accommodation plot not exceeding 2 acres.
- (3) A grant of up to £100 may be paid to defray the cost of settling title.
- (4) Where the holding is sold to the Land Commission the vendor's costs will be paid by the LC.
- (5) Where a married beneficiary in receipt of an annuity dies the spouse will be entitled to a life annuity equivalent to that for a single person.