

Executive Summary

Farm demographics has been recognized as an important driver of structural change in European agriculture. Focus groups and computer simulations on farm demographic change were used to better understand its role for the case study regions of the Altmark in the eastern part of Germany and Flanders in the northern part of Belgium. According to these analyses, many potential agricultural entrants are deterred by what they view as a poor quality of life that farming offers. This applies to farm successors as well as hired workers. For higher attractiveness of agriculture, policy objectives should address the social image of farming as well as revitalize rural areas. Increasingly critical is the demand for skilled hired labour. However, policies dealing with farm demographic change ignore these needs and focus almost exclusively on farm succession. Particularly, the direct payment system, including additional support for small farms and young farmers, must be re-evaluated for its effectiveness. The analyses provide evidence that this system constrains European agricultural development more than assists it; ultimately preventing farms from adapting and transforming.

Future farm demographics has to be seen in the wider context of demographic change and the young generation's expectations

Future farm demographics and general demographic change

In recent years, the topic of farm demographics has been a major concern of the EU and continues to be addressed in the proposals for the future Common Agricultural Policy (CAP). The concerns are driven by the ongoing decrease in the number of agricultural holdings and the fear that a large number of farms may have no successors. These fears are fuelled by an inverse age-pyramid of farmers, persistently poor income opportunities, long working hours as well as agriculture's declining reputation due to continuous public concerns about, e.g., animal welfare and environmental effects.

Irrespective of the situation in agriculture, Europe and particularly rural areas are experiencing a major demographic change. In the 2020s and '30s, the Baby Boomer Generation will retire with Generation Z as their future replacements. Generation Z is not only much fewer in numbers but has grown up in a completely different environment. They are digital natives who have never experienced borders within the enlarged EU. This will affect their expectations about their career, preferred lifestyle, and their mobility. While agriculture could benefit greatly from the competencies of Generation Z, neither the sector nor the rural areas currently offer adequate career and lifestyle perspectives to attract the next generation.

Farm demographics is more than farm succession

Regarding future farm demographics, the SURE-Farm project differentiates between farm succession within the family and the general availability of labour willing to work in agriculture. This differentiation is motivated by the overall increasing role of hired versus family labour. The increasing role of hired labour in the EU is in part a consequence of the significant share of corporate farms and large family holdings in the New Member States which entered the EU post-2003. Moreover, the EU enlargements allowed many people to migrate and work in the farming sector in the Old Member States, benefitting the growing larger family and corporate farms. This migration includes permanent as well as seasonal labour, particularly in animal husbandry and the fruit and vegetable sector.

More info:

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Availability of skilled hired labour is key for future agricultural development

The SURE-Farm methodology on farm demographics

Within the SURE-Farm project, the different perspectives on farm demographics have been studied empirically via focus groups and quantitatively with agent-based computer simulations. The approaches have been used for the selected study regions Flanders in the northern part of Belgium and the Altmark in the eastern part of Germany to analyze the effects of the availability of farm successors and skilled labour on farm demographics and structural change.

Hired labour, farm demographics, and structural change

The current importance of labour availability differs greatly inter- and intra-regionally. Particularly, regions with large, often corporate or cooperative farms, depend on hired labour. In such regions like the Altmark, there is not only a high dependence on hired labour, but also a shortage of qualified employees capable of handling the costly technology as well as to fulfill the strong managerial requirements. A change in production patterns is assumed to be the adaptation strategy to the labour shortage. Many stakeholders believe that low wages are the strongest driver of the labour shortage, but claim that it would not be possible to increase wages due to competitive pressure and low profitability. The computer simulations show that farms would switch to less labour-intensive production if agricultural wages were to increase. This signals that the farming system can adapt to higher salaries though this causes some loss of jobs in the rural areas.

Flanders is not currently facing a labour shortage. Family labour is generally sufficient to meet the demand of the majority of farms, although there is an increasing dependence on hired labour, too. Presently, hired labour is mostly seasonal and performed by migrant workers, as the pay is too low to attract Flemish job seekers. However, with the continuation of farm exits and farm size growth, the availability of hired and qualified labour for permanent employment is likely to play a major role for future regional agricultural development.

Farm succession, farm demographics, and structural change

According to the focus groups, there are many factors driving potential successors away from agriculture. The poor compensation and long hours, general income insecurity coupled with long-term capital-intensive investments, and perceived limits for farms to grow are specific sectoral concerns. Poor infrastructure as well as limited social and cultural opportunities in rural areas were cited across regions as further obstacles.

Simulating varying rates of successor availability in the Altmark and Flanders provides deeper insights into farm succession and farm exit. In scenarios where every farm had a potential successor, both regions experienced structural change that was predominantly driven by the low profitability of exiting farms. The low incomes within agriculture compared to the possibility for farmers to earn more

Low successor rates can offer the remaining farms better opportunities for growth

outside agriculture caused farms to close. In the simulations where successor availability was lower, at the estimated national rates, most of the farm exits were still due to low profitability and not to a lack of successors.

In neither of the regions were substantial negative effects identified due to successor absence. The simulations reveal that farm exits offer improved opportunities for the remaining farms; particularly in regions like Flanders where small- and medium-sized farms are predominant. There, a higher number of farm exits allow other, usually medium-sized farms, to benefit from increased land availability. The additional opportunities to grow allow the remaining farms to exploit economies of scale thereby increasing their efficiency and competitiveness. In regions like the Altmark, this effect is less apparent, because the dominating larger farms are already exploiting economies of scale.

As a consequence, the current financial support schemes within the CAP targeting young farmers can hardly be effective. In regions where larger farms demand skilled labour to hire, these payments fail to address the key problems of generational change. In regions which are dominated by small- and medium-sized farms, these payments foster the already high competition for the scarce factor land and constrain medium-sized farms from further development and cause negative long-term development perspectives on the regional level.

Policy Implications

- *Non-monetary factors are strong drivers which steer potential successors and qualified labour in or out of the sector*

Factors discouraging new entrants like agriculture's growing poor social image and unsatisfactory infrastructure in rural areas cannot be resolved with financial incentives for farm succession. Understanding the context-specific social factors driving potential new entrants away from the sector will allow for targeted policy interventions to make agriculture and prospects to work in agriculture more inviting. This will require solutions to overcome existing public concerns about modern farming such as animal welfare and biodiversity, as well as the trade-offs between competing societal interests including food security. It is doubtful whether these concerns and trade-offs can be adequately addressed by cultivating picturesque and romantic images about farming in an otherwise digital society.

- *Financial support for farm succession fails to address the increasing dependence on skilled hired labour and subsequent labour shortages*

As farms grow and intensify, so do their requirements for hired labour. In particular, farms are seeking skilled labour to meet their demands for operating modern technologies and managing larger farms. The current policy focus on farm succession ignores this trend as well as its implications. Specific policy challenges have to be seen in trans-sectoral and trans-regional mobility support, improvements of infrastructures needed by hired labour for living in rural areas (e.g., childcare and schools for young families), as well as training and education.

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Payments for young farmers and first hectares have adverse long-term effects and fail to offer perspectives for small and medium-sized farms

- *Direct payments are constraining some regions from adapting and transforming, hindering their resilience*

Currently, the CAP spending concentrates mainly on direct payments for income support. The direct payments hinder agricultural development through substantial leakages such as an increasing share of these payments going towards landowners as well as the conservation of inefficient and unprofitable farms. Though, e.g. large arable farms still benefit from these direct payments, the majority of farms increasingly suffers from unexploited economies of scale and high competition among farms, particularly for land. Specifically, payments for first hectares and for young farmers create adverse long-term effects in regions where small and medium-sized farms are dominant. In such regions, farm exits offer the remaining farms a chance to expand, to use their resources more efficiently, and to increase their profitability. Potential successors of exiting farms who have agricultural training would be a valuable source of qualified agricultural labour for which high demand exists.

- *Policies addressing resilience should focus on more than robustness*

The above policy implications are in line with the overall hypothesis of the SURE-Farm project which is that resilience capacities of farming systems go beyond the robustness of the existing farms but rather include also the opportunities provided by adaptation and transformation on the farm and farming system level in response to changing environmental conditions, such as demographic change.

Further Reading:

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- Pitson, C., Appel, A., Heinrich, F., and Bijttebier, J. (2020). D3.5 Report on future farm demographics and structural change in selected regions of the EU. SURE-Farm Deliverable. https://surefarmproject.eu/wordpress/wp-content/uploads/2020/03/D3.5._Report-on-future-farm-demographics-and-structural-change.pdf