INTERGENERATIONAL FARM TRANSFER RESEARCH: POLICY IMPLICATIONS

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Abstract

Public policy favoring the organization of agriculture through the farm family business has been a long held foundation of agricultural policy in the industrialize democracies. Much of this policy has been based upon an ideal typology that focuses upon the relationships of the farm and the family to the land and the processes that shape those relationships. An ideal typology that focuses on relationships provides little quantitative data and while such typology may be appropriate in developing it may not be appropriate to the implementation of such policy. The implementation of policy often requires some quantifiable data that will determine the inclusion or exclusion of farms for policy benefits. Given that policy favors family farms a key to their sustainability is the ability to transfer the farm land and the farm business to a successor generation. The complexity of the process of intergenerational transfer is little understood and under researched. This lack of research and the information that could be derived for it has affects the formulation of public policy.

The FARMTRANSFERS international farm succession research project has over 15,500 replications of a postal questionnaire. Accepting the limitation of time, location and culture it has produced a valuable and unique set of data that upon analysis yields insights into differences in farm policy based upon legal system and culture. A summary of selected policies is offered in by the authors of this paper. The paper concludes with observations on the future of the farm family business and the attributes of the successor of the future.

Keywords: family farm, successor, typology, research, public policy

1. Introduction

Many of the conclusions reached in this paper are predicated upon the *FARMTRANSFERS* international research project. *FARMTRANSFERS* employs a copyrighted questionnaire developed by Professor Andrew Errington. Data is collected through a postal questionnaire designed to capture a range of information on plans for succession and retirement, information sources used, expected retirement income sources and detailed information on the delegation of decision-making responsibility between the principal farmer and his/her successor(s), as well as basic background information on the farm. The survey has now been replicated in ten countries and in seven States in the United States (see Table 1) and the questionnaire has been completed by over 15,600 farmers.

By adapting a common questionnaire to investigate patterns of farm succession, retirement and inheritance in a diverse range of social, cultural and economic contexts, *FARMTRANSFERS* has developed a unique database of comparable information. The limitations of this approach have both strengths and weaknesses. Obviously there are limitations imposed by a standardized postal questionnaire format, a wide range of social, cultural and economic differences in the countries, states and provinces surveyed means it is necessary to adapt each replication slightly. Individual replications of the survey can also vary considerably in terms of the year of the survey and sample size. Having acknowledged such limitations, the *FARMTRANSFERS* survey has produced a range of (largely quantitative) data relating to the pattern, process and speed of succession and retirement and allows for an international comparison of the results which is not possible using other data sets. Admittedly the *FARMTRANSFERS* research methodology may not be methodically perfect but it does help to illuminate a complex, fascinating and important aspect of family business life.

Table 1. FARMTRANSFERS replications

Australia (2004)	North Carolina (2005)
Austria (2003)	Pennsylvania & New Jersey (2005)
California (Humboldt County, 2004)	Poland (2003)
Canada (Ontario & Quebec, 1997)	Romania (2009)
England (1991, 1997)	Switzerland (2003)
France (1993)	Tennessee (2010)
Germany (2003)	Virginia (2001)
Iowa (2000, 2006)	Wisconsin (2006)
Japan (2001)	

The family farm has continues to hold an important place in the production of food and agricultural commodities, in the formulation of policy and in the societies of countries. During the formative years of the Common Agricultural Policy, family farming was considered to be an important part of the European rural society and rural economy. The founders of the European Community recognised the importance of the “social structure of agriculture based on the family farm” (Fennell, 1987 p.5). In the early years of the EEC family agriculture was consider the ‘economic engine’ driving rural development and its economic position was coupled with an important social role.

Ideas about the family farm have also played an important role in the persistence of the North American agrarian ideal. Founding father of the United States, Thomas Jefferson argued that farmers were the most valuable citizens and “the most independent, the most virtuous, and they are tied to their country and wedded to its liberty and interests by the most lasting bonds (Jefferson 1785, quoted in Browne et al 1992). Writers in the 19^{th} century added a new dimension by stressing the moral and spiritual benefits of farm work. Thus the ‘myth’ of the family farm combined “Jefferson’s hardworking yeoman with a legendary superiority stemming from the prevailing Protestant work ethic of handwork as a measure of moral worth.

This raises the question of what is the definition of a “family farm”. Two approaches are commonly employed. The first is the ideal type that is widely used in research and typically highlights relationships, e.g. the relationship between the farm business and the family and the resultant consequence of such relationship. Such approach mainly examines the differences in processes among different groups and the propensity to behave in a certain way.

Long-time observers of family farming Ruth Gasson and Andrew Errington developed an ideal type definition based on the following multiple criteria:

1. Business ownership is combined with managerial control in the hands of business principals,
2. These principals are related by kinship or marriage,
3. Family members provide capital to the business,
4. Family members, including business principals, do farm work,
5. Business ownership and managerial control are transferred between the generations with the passage of time,
6. The family lives on the farm (Gasson and Errington 1993 p.18).

An alternative definition of a family farm employs and operational definition and is commonly see employed to determine eligibility for available government or private programs that support farm businesses. The operational definition of a family farm employed by the United States Department of Agriculture’s Economic Research Service defines a family farm as “any farm where the majority of the business is owned by the operator and individuals related to the operator by blood or marriage, including relatives who do not reside in the operator's household" (Hoppe and Banker 2010 p.2) and therefore 98% of farms in the US fit within this definition.

Perhaps more useful is the USDA/ERS farm typology which not only distinguishes between small and large family farms but identifies a range of other farm types and subdivisions, including retirement farms and residential/lifestyle farms.

Table 2. USDA Economic Research Service Farm Typology

<table>
<tr><td>Small family farms
(gross sales less than $250,000)</td><td>Large-scale family farms
(gross sales of $250,000 or more)</td></tr>
<tr><td rowspan="3">Rural-residence family farms:
Retirement farms. Small farms whose operators report they are retired.
Residential/lifestyle farms. Small farms whose operators report a major occupation other than farming.
Intermediate family farms:
Farming-occupation farms. Small family farms whose operators report farming as their major occupation.
• Low-sales farms. Gross sales less than $100,000.
• High-sales farms. Gross sales between $100,000 and $249,999.</td><td>Commercial family farms:
Large family farms. Gross sales between $250,000 and $499,999.
Very large family farms. Gross sales of $500,000 or more</td></tr>
<tr><td>Nonfamily farms</td></tr>
<tr><td>Any farm not classified as a family farm, that is, any farm for which the majority of the farm business is not owned by individuals related by blood, marriage, or adoption.</td></tr>
</table>

The economic, social and environmental setting for the farm family business has changed dramatically in the last three decades, profoundly affected farming and family farming. The changes during this period include:

- continued decline in farming incomes in real terms,
- decline in the influence of farming and the public perception of farmers,
- greater focus on the relationship between farming practice and the environment ('agriculture as the engine of destruction'),
- policy movement towards rural development, to encourage the diversification of resource use and the stimulation of employment opportunity,
- further developments in technology, easing the need for labour on the land and enabling longer working lives (assisted, perhaps, by improvements in health).

An obvious first place to start is the identification and presence of a successor, which is dependent on a number of factors, key among them, is the presence of children or close relative in the family and their desire be the successor. The presence of a successor, alone, has been noted as having an impact on the decision making in the business (*the succession effect*), with a close clear correlation between this and the propensity for the principal to have plans for semi- retirement (Potter and Lobley, 1996; Lobley, Baker and Whitehead, 2010). Tradition, Custom and Policy supporting family farm succession.

In order to encourage the intergenerational transfer of the farm family businesses a number of different approaches have been employed by governments and other organizations. Such approaches included financial assistance to encourage the transfer and help with restructuring of the farm business, approaches through fiscal policy to help with capital exchanges from owner to successor, innovative land tenure arrangements may be very important, educational programs to effect informed decisions before and during the succession process and matching services that match landowners/farmers with qualified new entrants.

2. Financial support for farming

Financial support for farming has been implemented by and has been a continuous feature of the policies of most governments in the developed world. Such support was based on the idea the increased financial viability of family owned farms would result in their continued existence. Financial support for new entrants has been a significant part of such policies. In the US the USDA Farm Service Agency provides beginning farmer loans at reduced interest rates. Several state have beginning farmer loans that are bond guaranteed thus reducing the risk to the lender and resulting in a lower interest rate for the borrower.

In the EU the focus of support has shifted to providing incentive for environmental management and rural development. In recognition of the continuing importance of farm businesses in the EU was the introduction in 2003 of the single payment to farmers.

3. Retirement

With few notable exceptions in most countries the majority of farmer indicate they with either never retire or will semi-retire and a significant minority report the will fully retire. If the principal operator never retires the opportunity for an intergenerational transfer is significantly reduced due to either the failure to transfer managerial decision making in a timely manner or the inability of the farm to provide the income for the owner and the successor.

Those farmers who responded to the *FARMTRANSFER* that they would fully retire were asked about their sources of income in retirement. A significant source of retirement income will come from the operating income of the farm. A second significant source of retirement income is derived either from sale or lease of the assets farm business assets.

A number of *FARMTRANSFER* researchers have reported provisions for inheritance and the receipt of state pension, encouraging succession. An interesting variance on the question of farm inheritance is evident in Switzerland where, direct payments are receivable until 65 (full handover). Also in an endeavour to promote family farm succession, the value of the holding on conveyance from principal to successor is prescribed by law as the capitalized earning capacity of the holding. Further pressure can come at this time, as the state pension scheme exempts farmers from the requirement to subscribe to an additional occupational pension plan which may not cover the cost of living. In many case therefore the principal is dependent on income and housing from the farm, not a conducive situation for maximum succession effect!

Perhaps more of an encouragement, in Japan, the Farmer's Pension Scheme, has provided additional Government contributions to the scheme for young farmers, payable on transfer of the farm business to successors at 65 years of age.

4. Inheritance custom and law

The complexity of custom and legal requirements for a decedent's property varies greatly from country to country. In some cultures the custom has been for inheritance of the whole by one beneficiary, male or female only, or either. In other cases, a more egalitarian approach is the custom, with the share of the estate equally between children. Primogeniture, the passing on of the estate of the deceased to the first born in the family, is predominantly an Anglo-Saxon approach to succession.

The greatest strength arising from the tradition of inheritance of the whole by one beneficiary is the preservation of the holding as a unity. A degree of decline in this practice is, however when the selected successor has pursued other career opportunities or the parents are concerned that the occupation of farming has little economic future. In other cases, children who are the most interested in farming are given a larger share of the farm assets or the parents are driven by a sense of fairness to divide he farm equally among their children. The farm may then be leased by other members to the family member who is most interested in the continuation of the business on the land. The problem arises that one generation or more have built up the holding or developed first class breeding lines in livestock, for example for which little or no accounting is made. The rapid rise in land values cannot be ignored and has led in many cases for the land to be sold and the proceeds to be divided among the heirs.

A range of fiscal provisions are possible to assist with succession. In the UK, taxation on the transfer of the estate of the deceased has long been seen as the major factor on the breakup of the large landed estates of the nineteenth century. In recent times, this has been replaced with an Inheritance Tax. Here, providing the estate is transferred to the beneficiary(ies) and the benefactor survives this transfer by seven years or more, the tax is totally avoidable. Although not strictly targeted at farming or succession, the benefit to succession is clear – the estate of the farming principal avoid break up in order to pay tax.

In the US the States and the Federal government have a variety of taxes that may be levied upon the transfer of farmland through the estate of a decedent. However there are liberal exemptions, tax credits and valuation techniques that may be employed to lessen or eliminate such taxes. Federal Estate tax allows for the transfer of $5.24 million per individual and $10.5 million for a married couple without any tax. Farmland may also be valued at its productive capacity rather than is speculative market value thus allowing more land to be transferred to a beneficiary without any tax. In some state, Iowa for example, there is no tax on transfers of farmland to a lineal descendant or ascendant.

Perhaps considered as one step further than this, in Japan, in an endeavour to keep small holdings from becoming smaller, the Government exempts farmland transfer from inheritance tax where the transfer is to one successor alone.

5. Land tenure arrangements

The flexibility of land tenure arrangements (relating to agricultural and non-agricultural property) can be a major contribution to the succession process, in providing a means of keeping the occupation of the land as a whole, for example, where the freehold for the property has been transferred in equal shares. In addition, flexible legal provision may also offer the opportunity for growth of the business, or its diversification, allowing the business to support more than one family through the succession stages. By way of example, such flexibility was provided in England and Wales in 1995, with root and branch review of the agricultural tenure system in these countries. This moved the nature of the agricultural tenancy from a prescriptive tenant-orientated provision to a more flexible tenancy, in the hope of freeing up more land to provide greater opportunity for new entrants. In effect, the new tenancies have provided opportunities, not for new entrants to farming (i.e. starters), but for existing farmers (and their successors) to enlarge their businesses as mixed tenure holdings, with clearer facility to incorporate diversified enterprises on tenanted land (Whitehead et al, 2002).

The rapid increase in the value of farmland in the US has outpaced the ability of the various Federal and State programs to finance the purchase of farmland. Increasingly new entrants, including successors to existing farms, are employing novel long term lease arrangements to posses and control the use of the land without the need to own it. While this is still relatively new there is a growing recognition that farmer and landowner need not be synonymous terms.

6. Matching services and succession education programs

The 2008 Farm Bill (Food, Conservation, and Energy Act of 2008) established the Beginning Farmer/Rancher Development Program. The goal of the program is to enhance the food security of the United States by providing beginning farmers and ranchers and their families with the necessary knowledge and skills to make decisions concerning the future sustainable farming of their properties. The USDA provides grants to successful applicants to develop programs that will enhance entry into farming.

There is a great deal of continued support for family farming, in some cases, providing specific encouragement in terms of the succession process. These approaches have, however, been criticized for not targeting only those transfers of the farm and the business would not have occurred in the absence of such support. Having noted that criticism, and given the complex process of intergenerational transfer continued intervention, perhaps in more economically challenging times, will need to be very carefully considered and targeted to achieve maximum effect in any particular circumstance.

7. Imperatives for the future

What is clear is that despite the resilience of the farm family business and the desire for continuation of family owned farm targeted support, both financial and non-financial, may be needed in order to ease challenges, present and future. The presence of an enthusiastic and qualified successor to take over the business is critical to the sustainability to the family farming system. Policy development will vary according to circumstance and should not be based on a ‘one for all’ model. Family farms are heterogeneous in nature and in the means by which to respond to future challenges. As the typology suggests, the need for, the level of and the appropriate approaches towards support in the future will vary. For the lifestyle/residential family farm, for example, this may entail targeted support to secure specific habitats, landscape and social / community structures recognised as of local, national of international import. In contrast, for the agribusiness family farm assistance is more likely to take the shape of that which facilitates further restructuring, such as improvements to tenure arrangement, to assist with the establishment of the mixture bundle of rights, along with appreciation of the need for growth from the planning system.

Continuity of management, through close relationships between family members, the ‘sharing’ of capital assets and the detailed knowledge of the farm resource all contribute to the strength of family farms. The successors of the future will have to be highly motivated, skilled in technical and business matters and capable of accepting change and planning appropriate responses. Without this, the risk is that the cornerstone of agricultural business in across the developed world will fail to meet local, national and global expectations.