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FINANCIAL INDUCEMENTS FOR THE ATTRACTION AND  
RETENTION OF A HIGH-CALIBRE FARM WORKFORCE

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Presented in partial fulfilment  
of the requirements for the Degree  
of Master of Science  
in the  
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by  
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FINANCIAL INDUCEMENTS FOR THE ATTRACTION AND RETENTION OF A  
HIGH CALIBRE FARM WORK FORCE

by G.F.Tate

This project reviews trends in farm ownership opportunity and farm labour supply within New Zealand and evaluates schemes whereby farm workers may accumulate capital to use towards the eventual achievement of farm ownership.

A steady movement towards fewer farm holdings and fewer farm workers has been halted in recent years with some evidence of a reversed pattern now applying. A review of statistics suggests a danger of reduced farmer contact by a largely urbanised society leading to inadequate numbers of young people making farming their vocation.

Rising land values, rising livestock values and the effect of inflation on interest rates means the prospective farm purchaser faces a greatly increased capital ingoing and a higher debt servicing cost. To reduce the discouragement of these trends government has sponsored schemes whereby eligible farm employees may deposit money over a period of years and receive either substantial grants or a guarantee of inflation protected funds which may be withdrawn on the purchase of a farm.

Entry to farm ownership by using sharemilking as the means of accumulating capital has been a traditional pathway in the dairy industry. Proposals for share farming in the sheep and beef industry have recently been widely publicised but these

proposals seem to overlook the relative lack of incentive that exists for sheep farm owners to participate. Capital sharing proposals through leasing or company ownership offer greater attractiveness with less inherent disadvantages.

The possibility of farm workers contributing to pooled investment schemes as a hedge against inflation does not seem likely to succeed. The difficulties and costs inherent in administering many small individual contributions and the basic unattractiveness of assigning individual control of savings to some other person to manage outweigh the probable advantages of such a scheme.

## CONTENTS

CHAPTER	PAGE
1. INTRODUCTION	1
2. ENTRY INTO FARMING	4
3. GOVERNMENT SPONSORED SCHEMES TO ASSIST IN ACHIEVING CAPITAL AVAILABILITY FOR FARM PURCHASE	24
3.1. Farm ownership savings scheme	24
3.2. Inflation adjusted savings bonds	26
3.2. Stock loans	26
3.4. Sharemilkers suspensary loans	27
3.5. Settlement loans for farm workers	27
3.6. Preferential settlement loans	27
3.7. Special settlement loans	28
3.8. Land Settlement Board civilian land settlement	28
3.9. Farm-vendor mortgage tax concession	29
3.10. Stamp duty on first farms	29
4. SHAREFARMING	31
4.1 Sharemilking	31
4.2 Sharefarming within the sheep industry	33
5. COMPANY FARMING	40
6. LEASING	43
7. POOLED INVESTMENT FOR CAPITAL GROWTH	46
8. CONCLUSION	48
9. ACKNOWLEDGEMENTS	51
10. REFERENCES	52

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# LIST OF TABLES

TABLE		PAGE
1.	Number of farm holdings, average area and total area	4
2.	Census night place of residence	7
3.	School leavers giving probable occupational destination as farming	12
4.	Percentage of Lincoln College graduates and diploma holders choosing farming or horticulture as a vocation.	13
5.	Total farm labour 1951-1971	14
6.	Categories of farm workers	15
7.	Number of rural farmland sales by type of sale and type of buyer	16
8.	Internal comparison of annual rates of inflation in New Zealand	18
9.	Farm land sale price index	19
10.	Hawkes Bay autumn prices for good breeding ewes	21

## INTRODUCTION

1. Agriculture has been the driving force in the development of New Zealand and in the medium term future some 70-80% of the country's foreign exchange earnings must still be derived from the agricultural sector.

To maintain an active buoyant viable and progressive industry requires that there be an annual recruitment of well trained and educated young farmers into farm ownership. To attract such people, farm work must be seen as a vocation at least as attractive as other employment avenues and offering inducements whereby the ambitious recruit can anticipate being able to move progressively towards farm managership and farm ownership.

In 1964 the manpower working party of the Agricultural Development Conference drew attention to the problem of continuing loss from the industry of men in the 25-44 year age group and described a number of social factors which it was believed was responsible for them leaving farming. Now, some 13 years later, the same social factors exist to act as a deterrent to people staying in farm employment. But unlike the position in 1964 when recruitment into the industry from school leavers was considered more than adequate to maintain the work force, recent statistics suggest a much less satisfactory position.

The dramatic increase in capital required to purchase a farm, the increased burden of debt servicing as a consequence

of this rise in capital and the effects of escalation of interest rates, and the general social setting which places less emphasis than previously on the virtues of saving money, make it difficult for a young person to achieve the goal of farm ownership without concessionary financial assistance or without being able to invest money so that its purchasing power keeps ahead of inflation.

Recently several new government sponsored schemes have been announced with the aim of assisting farm workers to progress towards the goal of farm ownership and to encourage recruitment into the industry. These schemes go some way towards overcoming the disadvantages caused by escalating capital requirements for farming but require constant review and increased publicity if they are to be widely accepted and used by farm workers.

The need to maintain purchasing power of savings has also heightened interest in equity sharing agreements to enable farm workers to participate in capital growth of the assets with which they are associated. Whilst opportunities for the effective operation of such schemes are not widespread, their existence can be expected to provide an added inducement for capable young persons to enter the industry.



This project reviews recent changes in the farm work force and farm ownership opportunity with the objective of establishing whether recruitment of farm workers is adequate for the industry's needs.

To encourage people into farm working the possibility of achieving farm ownership is believed to be a strong incentive. Existing or proposed financial inducements and equity sharing or inflation protected savings schemes whereby eligible young persons may accumulate capital for farm purchase are described and evaluated.

2.

ENTRY INTO FARMING

New Zealand's farm holdings reached their numerical peak following the intensive land subdivision and settlement programmes consequential on the passing of the Servicemens' Settlement and Land Sales Act of 1943 which provided for the compulsory purchase of farm land for the settlement of ex-servicemen. From a peak of 92,000 farm holdings in 1955 the number steadily declined until 1972 when approximately two-thirds remained in existence. For the years 1973, 1974 and 1975 the trend has reversed with 7% more holdings being recorded in the agricultural statistics of 1975 than in 1972.

TABLE 1

Number of farm holdings, - average area  
and total area

Year	Number of farm holdings	Average area in hectares	Total area in occupation (000 hectares)
1940	86,304	201	17,372
1950	90,290	193	17,466
1955	92,395	190	17,546
1960	76,928	232	17,814
1970	65,331	267	17,432
1971	64,900	269	17,433
1972	62,789	303	19,030
1973	63,196	327	20,667
1974	63,455	327	20,722
1975	67,063	312	20,937

Source: (1) N.Z. Agricultural Statistics for season 1971/72.

(2) Department of Statistics Statistical Bulletin:  
Agriculture 1974-75, Bulletin No. 3.

Several changes in the Statistics Department definition of "farm holding" makes strict comparisons over time difficult. From 1959 only those holdings of 4 ha or more situated outside borough boundaries were included.

From 1971 holdings outside borough boundaries of between 0.81 ha and 4 ha were included.

From 1972 the category was expanded to include areas of land "used for commercial horticulture, vegetable or poultry production together with indigenous forests which are likely to be milled".

The result of these changes would be to include more, rather than less holdings, so the recent trend towards an increase in number may be rather less significant than indicated by the data available.

Moreover, (Scott (1977) states that whereas the Department of Statistics publications recorded that in 1974 there were 7420 holdings of 9 ha or less occupying a total area of approximately 35,000 ha, the Ministry of Works Town and Country Planning Division national survey in 1974 suggested there were 27,000 such holdings occupying 104,000 ha.

Such statistical discrepancies mean that results should be interpreted in terms of trends rather than absolute figures.

The significance for farm labour of the trend to lesser units is highlighted by statements such as that of Mr R.E.W. Elliot, Director of the Dairy Division of the Ministry of Agriculture and Fisheries and reported in the Southland Times of November 18th

1977 (p.18). Mr Elliot is reported to have stated that in the eight months ended August 31, 1977, there was a net loss of 840 farmers from dairying. Mr Elliot claimed that since 1971 more than 1000 farmers per year had been lost from dairying.

A reduction in the number of farm holdings reduces the farm labour force and reduces the opportunity for any one individual to become a farm owner. As the overall population rises and the number of farm holdings falls, the chance for each individual to own his own farm also falls.

Traditionally in New Zealand the goal of most farm workers has been the ownership of land. Other positions in the farm work force - sharemilker, manager, shepherd or cowhand have usually been viewed as rungs in climbing the ladder to ownership.

Without a ready means of progress towards farm ownership, persons are less likely to enter the farm work force. Without adequate new recruits the quality of farm owners and managers will tend to fall leading to both economic and social disadvantage to the nation as a whole.

A further effect of a reduced number of farm holdings is a loss of people from the rural community.

The trend for a declining rural population and increasing urban numbers has been evident in New Zealand over a long period.

TABLE 2  
Census night place of residence

Census	<u>URBAN</u>		<u>RURAL</u>	
	Number (000)	%	Number (000)	%
1936	1055	67	514	33
1956	1611	74	559	26
1966	2128	80	544	20
1971	2343	82	515	18
1976	2594	83	531	17

Source: 1976 Census of Population and Dwellings Vol.1B.

The reason for the slight increase in the absolute number of rural dwellers in 1976 has not been studied but is likely to be an effect of the increased number of small holdings resulting from subdivision around urban perimeters. The people who live on such properties may be classed as part-time farmers and rural dwellers, but in most cases their primary employment is within the urban core which their properties surround. Their interests, commercial allegiance and social interactions are likely to lie more within the urban or semi-urban community rather than with the outlying rural areas.

A consequence of inability to achieve aspirations of farm ownership is the large number of farm workers who leave farm employment in the 25-44 year age group. The 1963/64 Agricultural Development Conference Report expressed concern about the number of workers who left farming for reasons other than retirement. Some of the major reasons cited for this early loss were difficulties of school attendance for children, lack of social life and amenities or of transport to enable these things to be reached easily, lack of

opportunity for married women to engage in paid employment in satisfying occupations, lack of occupational and social status attached to farm employment. Thirteen years later at a seminar on Labour and Social Relations in Rural Areas held at Lincoln College, the same problems were cited.

From this it may be concluded that the farming community, as employers, may not be unduly concerned at a drift of experienced farm workers approaching middle age.

Much farm work is physically demanding requiring qualities of endurance, health and reliability. A relatively inexperienced person who is physically strong and capable can represent a better labour complement to an older farm employer than an older more experienced person who is unable to sustain heavy physical output.

This reinforces the need to attract capable, ambitious young persons into farming in large enough numbers to provide replacements for both those who can overcome the financial hurdle involved and achieve farm ownership, and for the dropout from farming of those who cannot achieve ownership and whose physical powers have begun to decline. New Zealand's agricultural development has taken place within a one man, one farm philosophical context. This has resulted in closer settlement of farm land, provision of land for more persons wanting farm ownership and a greater rural population to sustain servicing industries.

At times this philosophy has resulted in men being settled on farms which subsequently proved too small to provide an adequate standard of living. The Agricultural Development Conference Report of

the Scale of Farming working party recognised..." the existence of farms which are uneconomic is wasteful of land and labour and that, all too often, the economic necessity for part-time farming leads to poor farming" (p.241).

In the late nineteen-sixties and early nineteen-seventies a significant move towards increased amalgamation of farm holdings took place largely financed by funds administered by the then State Advances Corporation. This was partly due to a carryover effect of the rehabilitation of ex servicemen originally settled twenty years before and who in many cases now had sons coming of an age where additional land area was required to retain them on the family farm. Pipe (1971) in a survey of farm amalgamation in Malvern County noted that in his sample only 19% of land sales for amalgamation purposes involved units that he considered to be economically viable, but 41% of his sample had enlarged their holdings primarily to enable sons to go farming.

Amalgamation has therefore strengthened the family farm concept through encouraging sons to stay in farming on stronger units whilst, at the same time, it has reduced the number of farm families engaged in farming.

To the extent that amalgamation of farm holdings has reduced uneconomic units one could say that the viability of the agricultural industry had been improved. As a consequence one could expect farmers to be in a position to provide improved employee conditions and to pay wages sufficiently attractive to compete with non farming industry.

The viability of farming is not only significant for New Zealand's export earnings. It is also the base upon which the rural community structure exists. Census data shows 531,000 people living in rural districts. Only 125,000 of these are occupied in farm work. Unless the farm sector is financially strong the remainder of these rural dwellers will be adversely affected.

But as farms have amalgamated in many cases more efficient utilisation and the substitution of capital for labour have resulted in the departing farmer and his family not being replaced. Concern for the effects of increasing population movement from rural to urban areas on the quality of rural life has been widely voiced (see for example Morton 1974, Glendinning 1976, Cant 1977).

Just as the basis for farm amalgamation has been to create stronger individual economic units, the rural servicing industries have progressively withdrawn from outlying districts to consolidate into larger, economically stronger organisations.

Each time a family withdraws from a rural area the catchment population for other rural servicing organisations declines leading to a further decline in amenities - poorer access to educational facilities, medical services, cultural contacts, transport and shopping facilities and in the social diversity which is necessary for a sustained fruitful social fabric.

Improved roading and motorisation has increased the tendency for rural dwellers to bypass these same local services. The closure of one particular service unit and the transfer from the rural area of its personnel puts further pressure on another unit leading, in turn, to its closure.



The result is a further reduction in rural population again reducing the amenities in the area for those who remain.

As single teacher country schools are closed children are transported often long distances to larger institutions serving a much bigger area. But the relationship of parent-child-teacher working together, living in a common community and knowing each others personal circumstances to the extent that the best possible learning environment can be provided for the child is broken down. Under the consolidated school the teacher and parent are remote. Liaison is more difficult. The child sees a separation between his rural home environment and the more urbanised style of his teacher.

The farm employee with children at school and without the compensation of ownership of land to hold him is likely to feel that, to give his children the best possible education, he must give up farming and join the urban community where his children can attend school without excessive travelling and where, as a parent, closer contact can be maintained.

Baldock (1971) in a study of the vocational choice of secondary school students showed farming to be the choice of 51% of male respondents with a farming background. In contrast farming was chosen by less than 9% of those with non-farming backgrounds. It might be reasonably hypothesised that non-farming rural dwellers, because of their close association with farmers would be more likely to be attracted to farming as a vocational choice than would urban dwellers.

The decline in rural population would then lead to a decline in the number of children who had a farming association leading in turn to a decline in those school leavers with interest in taking

up farming as a career.

The evidence presented in the following table tends to substantiate this hypothesis.

TABLE 3

School leavers giving probable occupational  
destination as farming

	<u>1962</u>	<u>1966</u>	<u>1970</u>	<u>1974</u>
Boys	3,395	3,496	2,906	2,660
Girls	220	241	227	296
Total	3,615	3,737	3,133	2,956
Total leavers	39,631	46,159	51,729	55,192
% to farming	9	8	6	5

Source: Education Statistics of New Zealand, Department of Education, Wellington.

There has been a constant decline in the percentage of school leavers who see their probable occupational destination as farming. The stage has been reached where, with less than 3000 school leavers looking to farming as an occupation, recruitment is below the level required to maintain the industry's workforce of in excess of 100,000.

Rising standards of education mean more people going into farming who have some tertiary training.. This may modify the effects of a declining recruitment directly from school leavers.

Between 1974 and 1977 an increasing percentage of students completing their courses at Lincoln College undertook farming as their occupation. The relatively increasing economic buoyancy of farming over these years is also a probable part explanation for the trend.

TABLE 4

Percentage of Lincoln College graduates and diploma holders choosing farming or horticulture as a vocation.

	1974	1975	1976	1977
Bachelors degrees	16	13	16	21
Advanced diplomas	24	31	37	44
Introductory diplomas	29	28	14	27

Source: O.M. Wilson (1977).  
Report on graduate and diplomate employment (unpublished report to Lincoln College Council).

Not all new recruits into the farm labour force are school or university leavers. In the analysis of a survey of farm labour in Patangata County, McClatchy (1966) states "there is a big shifting population in the farm labour force.....it is not just a simple matter of many school leavers coming in at one end and moving out at the other.....while many men obviously do make a vocation of farm work there would appear to be a great number who shift in and out of farm work for relatively short spells."

Again there seems a much greater likelihood of a person who has lived in a rural community and had close previous contact with farmers being prepared to move into farm working than would be the case for a person without such experience.

Increased urbanisation means that recruitment of workers from an established trade to farm working is likely to be more difficult, thus increasing the likelihood of a shortage of farm labour.

There is a general tendency for declining numbers of persons to be classified in census data under the agriculture and livestock production industry division.

TABLE 5

Total Farm Labour 1951-1971,  
(Industry Division - Agriculture & Livestock Production)

Date of Census	Male	Female	Total
April 1951	119,172	9,506	128,678
April 1956	116,775	8,916	125,695
April 1961	111,909	9,732	121,641
March 1966	110,655	14,493	125,148
March 1971	91,481	16,912	108,393

Source: N.Z. Census of population and dwellings Vol.4.

Some of the apparent increase in females engaged in the industry occurs as a consequence of a change in income tax legislation which allowed payments to family female labour employed on farms and resulted in females classifying themselves as workers where formerly they had been unrecorded in the statistics.

The rise in the female labour force in farming parallels that in the work force as a whole. From 1951 to 1971 the ratio of females to males in the labour force rose from 30% to 42%. In farming the relative figures between the same years are 8% to 18%.

The most recently published official statistics on persons engaged in farming shows the following labour force:

TABLE 6

Categories of farm workers

	1971-72	1972-73	1973-74	1974-75
Working owners, leaseholders and sharemilkers				
- male	58,751	56,133	54,866	52,484
-female	3,440	8,133	11,545	11,303
Unpaid members of family assisting in farm work				
- male	10,004	10,970	12,092	11,542
-female	8,345	7,632	11,758	12,252
Paid permanent employees				
- male	27,547	28,082	30,354	29,669
-female	5,954	7,006	8,577	8,042
TOTALS	114,041	117,956	129,192	125,292

Source: Department of Statistics Statistical Bulletin, Agriculture 1974-75. No.5.

These figures show a rising trend in the farm labour force in contrast to the declines shown in the five yearly census data. This trend could be the result of increased farm development expenditure and increased ability to employ labour during a period of relatively high farming incomes. It also follows the trend demonstrated in Table 2 of an increase in rural population from 1971 to 1976.

The decline in the opportunity for farm ownership because of a reduced number of farm holdings, the decline in rural amenities reducing the attractiveness of rural living for a farm worker, and the decreasing contact the majority of school children have with farming all make it more difficult for farming to attract a satisfactory share of the labour market.

Yet there is no evidence to date of a real shortage of farm labour.

Stewart (1977) suggests that 1500 new farmers need to be injected into the industry each year in order to maintain a desirable age distribution. Presumably the term "farmer" in this context means farm owner/operator.

The following table suggests that this figure is being easily achieved.

TABLE 7

Number of rural farmland sales by type of sale and type of buyer

	1972		1973		1974		1975		1976	
	Number	%	Number	%	Number	%	Number	%	Number	%
Freehold open market										
New Farmer	1533	22	2324	25	1788	22	1338	23	1603	25
Businessman farmer	252	4	580	6	695	9	509	9	477	8
Farm enlargement	1802	25	2114	23	1418	18	776	14	1025	16
Other	951	15	1614	17	193	15	1570	10	739	12
Non freehold open market	2441	34	2521	29	3056	36	2527	44	2437	39
	7089	100	9253	100	8150	100	5720	100	6291	100

Source: Valuation Dept. of N.Z. "The Real Estate Market in N.Z. 1976". Research paper 77/1, (p.144).

Note: Between 30 and 40 percent of the sales are not open market freehold. i.e. they include family transactions, leasehold land, freeholding transactions etc. If new farmers retain a similar proportion of the share of these transactions the total new farmers entering the industry in the years cited is likely to be in excess of 2000 per year - an adequate number to sustain the industry.

A further indication that new recruitment into farming was inadequate would be the fact that the average age of farm owners and managers was increasing. Tate (1976) reviewed census data between 1961 and 1971 and concluded that there was no evidence of increasing age in farmers. Over half of the occupational group classification of farmers and farm managers were younger than 45 years. Pryde (1976) from a survey of a wide sample of farmers found that their average was 44 years. This evidence shows there has been an adequate flow of new recruits into farm ownership.

Nor does there seem to have been a major problem in obtaining farm labour to work on farms. Cameron & Wilkinson (1977) in a comprehensive review of agricultural training needs in New Zealand stated (p.7) "We detected a growing reluctance to take on first year cadets" and on p.13 "farmers are quite happy to employ 16, 17 and 18 year olds but are less happy to pay the higher rates required for fourth and fifth year cadets". If labour was short a strong demand for these better trained cadets could be expected.

The increase in the number of paid permanent employees employed on farms between 1971 and 1975 (refer Table 6) at a time when the total numbers of livestock on New Zealand farms dropped also suggests no real lack of availability of farm labour. However, there have recently been several significant happenings in the New Zealand farming scene that may well act as a deterrent to people aspiring to farm ownership and thus reducing the number of people attracted to farm work. These factors are the advent of relatively high inflation rates in recent years making savings less attractive, together with a dramatic escalation in property and livestock values. The relevant statistics are set out in the following tables.

TABLE 8

Internal Comparison of Annual Rates of Inflation in N.Z.

		Increase in Consumer Price Index (i.e. annual rate of inflation)
		<hr/>
	1962-72	Avg. annual rate 5.1%
12 months to 30 Sept.	1973	8.2%
"	1974	11.4%
"	1975	14.8%
"	1976	17.2%
"	1977	14.4%

Source: Reserve Bank of N.Z. November 1977, "The N.Z. Economy - six month review", in Reserve Bank Bulletin.

For the farm worker trying to save to accumulate a cash deposit for land purchase, the effect of inflation since 1973 has meant that the interest payable on any secure investment has returned less than the rate of inflation. In effect the purchasing power of his savings have been eroded. But even more significant has been the rise in farm land prices.



TABLE 9

Farm Land Sale Price Index

(Based on open market freehold sales of rural farmland)  
Base 1960 = 1000)

Year ended 31 Dec.	Number of sales	Index number	Annual percentage change
1960	3107	1000	-
1970	4210	1715	0.7 (Over 10 year period)
1971	4517	1754	2.3
1972	4638	1880	7.2
1973	6632	2346	24.8
1974	5094	3478	48.2
1975	3193	3999	15
1976	3844	4404	10.1

Source: Valuation Department of N.Z. The Real Estate market in  
N.Z. 1976. Research paper 77/1.

The effect of the 85% rise in the farm land sale price index in the years 1973 and 1974 has been to put the capital requirement for land ownership onto a new plane. Subsequent annual percentage charges in the index have not been more than the annual percentage increase in inflation in the economy as a whole. But because of the new farmland price level established, in absolute terms each year the increase in land sales price is a strong disappointment to the aspiring farm purchaser.

The Valuation Departments Research Paper 77/1 states "the average price of all freehold farmland sold on the open market in 1976 increased by \$10,902 to \$63,560". (p.90)

For a farm worker to live modestly and to save an additional \$10,900 in one year after paying tax, he would need to have a taxable income in excess of \$20,000. In fact few farm workers on wages would have a gross income in excess of \$6,000. Without some form of equity sharing to maintain buying power, or subsidisation of savings, there is little prospect of the farm worker saving his way towards farm purchase.

In 1973 the capital required to purchase breeding ewes also escalated dramatically. Livestock prices are affected by farming incomes, seasonal feed supplies and such related contingencies as the ability to dispose of surplus stock through meat processing works.

Since 1972 the price of good breeding ewes has increased 300 - 400% again making it much more difficult for the farm worker to acquire equity in stock.

TABLE 10

Hawkes Bay Autumn Prices for Good Breeding Ewes.

	Two tooth ewes	4 and 5 year ewes
	\$	\$
1960	5.50	4.00
1970	7.55	5.40
1971	7.60	5.50
1972	7.50	5.20
1973	14.20	10.35
1974	18.00	14.50
1975	12.00	6.00
1976	23.50	16.50
1977	35.00	22.50

Source: N.Z. Meat and Wool Boards Economic Service, "Annual Review of the Sheep Industry".

The effects of these inflationary trends means that a farm worker aspiring to purchase a typical first sheep farm in 1972 might have expected to face the following capital requirement.

Land	\$58,000
Stock	\$12,000
	<u>\$70,000</u>

By 1976 using the farm land sale price index to inflate the land value and the Hawkes Bay autumn ewe price for the stock value the same enterprise would cost:

Land	\$135,720
Stock	\$ 37,880
	<u>\$173,600</u>

Increases in wage rates lagged far behind the massive escalation of land and stock prices. In the example quoted, the four year increase in capital ingoing of over \$100,000 would

nearly all have to be met by increased borrowing by a would be purchaser.

The rise in average interest rates from less than 7% to more than 10% which also occurred over this period means that the cost of debt servicing for the purchaser of a farm has increased many times over the four years. An extra \$100,000 capital ingoing at 10% interest would mean the farm purchaser would have to find debt servicing of an additional \$10,000 per year, plus the effects of the rise in interest rate on what would originally have had to be borrowed plus increased principal repayments over the whole sum. In the light of these trends farm workers have seen the need to have available some form of investment which protects their ability to retain the purchasing power of their capital in terms of farm acquisition. Such investments could be within the farming operation or outside it provided the capital movements were comparable.

A review of schemes available which involve either equity participation within the farm or subsidisation of capital from outside investment is presented in the following chapters.

### Summary

New Zealand's farm holdings have numbered between 60,000 and 70,000 for the past ten years - a reduction of almost one third over the peak number of twenty years previous. This reduction combined with the effect of substituting capital for labour in the rural resource structure has meant less people in farm employment.

This, in turn, has resulted in a declining rural population and an increasing urban concentration of people resulting again in a decline in services for rural communities. As urbanised living

increases it is more difficult for the population at large to have association with or understanding of farming. This is resulting in less and less school leavers indicating farming as a probable occupation.

Although there is no present evidence of a shortage of farm labour, nor of new entrants into farming ownership the effects of decreasing farmer contact by the majority of the population combined with the greatly increased capital requirements for a person to buy a farm and the disincentives for savings provided by continuing high inflation can be expected to make it more difficult to recruit people into farm working unless substantial financial inducements are provided.

### 3. GOVERNMENT SPONSORED SCHEMES TO ASSIST IN ACHIEVING CAPITAL AVAILABILITY FOR FARM PURCHASE

#### 3.1. Farm ownership savings scheme

Farm ownership savings accounts offer a real boost to personal savings towards a first 50% sharefarming proposition or the purchase of a first farm.

There are two benefit options available under the scheme, - a purchase grant under what is known as the 'ordinary' scheme and a tax rebate under what is known as the 'special' scheme.

Both options require savings to be in the scheme for a minimum of three years to qualify for any benefit for a first stock purchase or 5 years for any benefit for a first farm purchase. To qualify, a person may not have previously owned a substantial interest in any land and must have had at least 3 years practical farming experience since opening the account. During the three years immediately before uplifting the money an aggregate of 2 years practical farming experience must be in the particular type of farming the depositor wants to take up with the money saved.

Provided eligibility is met under the ordinary or purchase grant scheme a 25% tax free grant on eligible savings of up to \$3,000 per year is made after 3 qualifying years of savings. The grant rises by 5% per year for every extra year of savings above five years until a maximum of 50% grant is payable after 10 years. Interest is payable at 3% on savings.

Regular savings do not have to be made. If the bulk of the savings are made early in the period, the real interest return will be less than if the bulk of the savings are deposited in the last few years. Thus a person who opened an account with a minimum \$250 qualifying deposit 10 years previous and made no further deposit until one day prior to withdrawal could still qualify for a 50% grant on the total sum of both deposits plus accumulated interest.

For those people paying tax a special tax rebate option is available. A tax rebate of 45c for every dollar saved is available up to a maximum of \$4,000 savings per year with a maximum of \$50,000 total. Once savings qualify for a rebate, the money cannot be withdrawn without sacrificing that rebate except for an eligible purchase proposition.

The contributor should aim to deposit before each 31st March one dollar of savings for each 45c of tax expected to be paid for that financial year. As long as the deposit is made prior to March 31st it qualifies so that savings can be held in a higher interest bearing account until the end of the financial year.

A depositor under either of these schemes can receive a substantial capital gain to assist in the purchase of his farm.

The Farm Ownership Savings Scheme is administered by the Rural Banking and Finance Corporation but accounts are operated by savings banks or approved building societies.

### 3.2. Inflation adjusted savings bonds

Any person aged seven years or older may now purchase N.Z. Government bonds repayable after 5 years or at earlier date if the proceeds are required to be used to acquire, for the bondholders own use, a first farm.

On the repayment of the bond a premium will be paid calculated by applying to the nominal value of the bond the percentage by which the Consumers Price Index has changed during the currency of the bond.

A guaranteed minimum premium of 5% p.a. compounded quarterly is built into the bond. Any premium is exempt from income tax.

Interest at 2% is also payable.

A maximum bond holding of \$1,000 may be purchased by an individual in any one calendar year. The maximum amount that may be held by any one person at any one time is \$5,000.

For the individual contemplating farm purchase within 5 years the inflation adjusted savings bonds offer a means of ensuring that, within the bond restrictions, capital savings keep pace with inflation. Where farm purchase is likely to be longer than 5 years the farm ownership special savings scheme probably offers greater advantage for capital accrual.

### 3.3. Stock loans

Loans are available from the Rural Banking and Finance Corporation to assist 50/50 sharemilkers, sharefarmers and



lessees to purchase necessary stock and plant. Normally loans of up to 60% of the market value of stock and plant are available at concessionary interest rates.

#### 3.4. Sharemilkers suspensory loans

When a sharemilker or a lessee of a dairy farm purchases his own farm he often has to sell some of his herd because the new farm has a smaller carrying capacity. The Rural Banking and Finance Corporation offers, to qualifying applicants, a ten year suspensory loan, interest free, to offset taxation and other expenses involved in the change to dairy farm ownership. The loan will be written off after ten years if the purchased property is personally owned and farmed by the original borrower.

#### 3.5. Settlement loans for farm workers

Bona fide farm workers with permanent but not necessarily regular farm work income are eligible for mortgage finance from the Rural Banking and Finance Corporation to purchase and stock properties which in themselves are uneconomic but which provide a stepping stone towards the purchase of a fully economic property. Interest is on concessionary rates repayable over long term table mortgage.

#### 3.6. Preferential settlement loans

Qualified experienced farmers such as sharemilkers, managers and lessees who are purchasing their first economic or potentially economic farming unit receive a preferential allocation of Rural Banking and Finance Corporation funds. These are at interest rates terms and conditions more favourable to the borrower than would

be expected on the open market.

### 3.7. Special settlement loans

For those persons who demonstrate above average qualities of initiative and thrift and outstanding management ability, the Rural Banking and Finance Corporation on suitable propositions will lend up to 85% of its assessment of the market value of land, buildings, stock and essential plant. Within the normal maximum loan of \$150,000 for a sheep farm, a suitable applicant could finance himself into a \$176,500 proposition with a personal contribution of only \$26,500.

### 3.8. Land Settlement Board civilian land settlement.

Each year, through the Land Settlement Board, Government offers by ballot a number of farms to selected qualifying applicants. The deposit on a leasehold tenure approximates 15% of the ingoing. The balance is financed by the Land Settlement Board at concessionary interest rates initially on an interest only basis of charge.

With, at the present time, some 485,000 hectares of land contained in nearly 200 land development blocks being administered by the Department of Lands and Survey for the Land Settlement Board, approximately 1400 individual farms should become available for settlement. Fifty of these are expected to be allocated in 1978.

For those fortunate enough to draw a ballot the goal of farm ownership can be achieved with a relatively small cash deposit. Without doubt the possibility of entering into a ballot for a crown allotment acts as an incentive

to encourage many young workers to remain in the farming industry.

3.9. Farm-vendor mortgage tax concession

In order to assist the settlement of a suitably qualified young farmer purchasing his first farm, legislation introduced in 1977 will, from April 1 1978, provide for a retiring farmer to receive a substantial tax concession if he assists an eligible purchaser by leaving at least half of the sale price on mortgage. 50% of the interest earned from the money left in the property will be exempted from income tax provided the mortgage term is not less than seven years.

This provision makes it more attractive for older farmers to sell their properties and at the same time, receive the satisfaction of assisting a young person onto the land.

3.10. Stamp-duty exemption on first farms

To further encourage young persons to go into farming on their own account, on contracts for sale and purchase entered into after 22nd July 1977 where a bona fide farmer purchases his first farm, stamp duty on the transfer will not be charged. This is, in effect, a direct 1% subsidy or capital grant to the new purchaser.

### Summary

The above described ten specific schemes all provide assistance for the farm worker to achieve the necessary capital to become a farm owner. Civilian land settlement programmes on Crown land blocks have been in operation for many years and have provided a source of encouragement for the would be farm owner to save for the deposit. However with the escalation of the capital requirements for settlement blocks few farm workers could hope to save from wages the minimum \$20,000 - \$30,000 needed. Hence the development of additional incentives to develop a diversity of ways by which capital for farm ownership may be acquired.

It is still very difficult for a farm worker to earn enough in wages to be able to make any substantial progress through savings accumulation towards farm ownership.

The most effective way for achieving farm ownership is to use the Government sponsored schemes described above in conjunction with the equity sharing schemes which are described in the following pages.

SHAREFARMING

4.1. Sharemilking

For many years sharemilking has been an accepted way of entry into farm ownership within the dairy industry. The principle of sharemilking involves two parties - the land owner and the sharemilker - consenting to an agreement which outlines how farm income and farm expenses are to be divided, how farm work is to be allocated and how much control the land owner has over the management of the land property.

Agreements which involve income sharing but not capital sharing have commonly been known as 29% and 39% - the figures representing the share of milk income received by the sharemilker. These types of sharemilking agreement have had set conditions laid down under the Sharemilking Agreements Act of 1937 and subsequent orders and amendments. Such agreements provide opportunities for young people prepared to work hard to be rewarded at a higher rate than is usual for a wage earner, whilst gaining valuable management experience, usually under the guidance of the farm owner. Combined with the advantages of a maximum deposit under the Farm Ownership Savings Scheme, 29% and 39% sharemilking provides a worthwhile means of rapidly acquiring a substantial cash sum. McBeath (1977), for example, has calculated that on total cash deposits of \$15,400, provided tax savings and interest are also deposited as they occur, over a 5 year term an investor may, through the special farm ownership account accrue a total of \$29,800 to be used for farm or herd purchase. Sharemilking agreements providing for a 50% payment of the gross milk credits to the milker do not come under the Sharemilking Agreements Act 1937. However, a standardised form of agreement such as that prepared

by the N.Z. Co-operative Dairy Company is usually completed by the two parties.

Under the 50/50 sharemilking agreement the sharemilker provides the herd and all labour, the owner provides the land, buildings and milking plant. Other expenses are apportioned according to the individual contracts. The 50/50 agreement thus provides for sharing of both income and capital.

The facility to build up an asset in the form of stock and plant as a form of compulsory saving has meant that 50/50 sharemilking has provided a road to farm ownership for many dairymen over past decades. Whilst paying off his herd the sharemilker develops management skills and proves himself in this regard and in respect of creditworthiness to lending organisations. Thus he represents a proven risk when it comes to borrowing money to finance eventual farm purchase.

Liberal lending policies by such organisations as the Rural Banking and Finance Corporation and Rural Intermediate Credit Associations enable young people with satisfactory propositions to readily finance themselves into herd ownership or to finance the expansion of their herds when moving to a larger property. Whilst building up an asset in the herd, the sharemilker is able to utilise taxation concessions through the writing down of stock values from market to approved standard values. In this way book losses can be created to enable high principal repayment on short term loans without attracting high taxation. In addition sharemilkers' suspensory loans are available to meet the taxation liability that is incurred on the difference between the standard values and market values when part of a herd has to be sold on the

purchase of the sharemilkers own property. These loans are interest free and may be written off after 10 years of farm ownership.

Should the 50% sharemilker have tax to pay or funds to invest he may still participate in either version of the Farm Ownership Account Scheme thus providing a potentially useful additional deposit when farm ownership is eventually achieved.

Sharemilking with its graduated stages of management responsibility and capital provision provides a proven means of acquiring equity capital to use in dairy farm purchasing. Recent Government ownership assistance schemes, when judiciously used, probably make the accumulation of capital relatively easier for the sharemilker than ever before. The aspiring dairy farmer may pursue his ownership goal secure in the knowledge that, provided he is prepared to work hard and build a reputation for creditworthiness, the means of achieving his objective are readily available.

#### 4.2. Sharefarming agreements within the sheep industry

The success of sharemilking as a means of providing entry into the dairy industry has inspired many in recent times to investigate whether a similar sharefarming basis could be applied to the sheep and beef industries.

The advantages of a sharefarming system to the farm worker aspiring to sheep farm ownership are many and include.

(1) An opportunity for capital accumulation

The compulsory saving associated with repayment of monies borrowed to acquire livestock has been a key to the success of 50/50 sharemilking propositions. A similar situation would be expected in the purchase of a sheep flock. The dramatic escalation in sheep values over the past five years has increased interest in schemes to provide farm workers with an investment that has provided capital gains well in excess of ordinary inflation. It may be expected that the advent of farm price stabilisation schemes will, through more stable livestock prices, reduce the significance for the future of the capital gain component of livestock purchase. However the compulsory saving and tax incentive components of livestock purchase through sharefarming will remain.

(2) An opportunity to participate in taxation incentives

The nil standard value scheme and the ability to write down the value of livestock from market to standard values offers similar advantages to the sharefarmer as to the established farmer. If the write down in value of livestock for taxation purposes is used in conjunction with rapid principal repayment of borrowed monies, very considerable gains in equity can result. As with sharemilking the opportunity also exists to participate in Farm Ownership Savings schemes and other special incentives provided by government.

(3) Worker incentive

Through livestock ownership the farm worker has a much greater incentive to improve husbandry skills, to accept responsibility, and to raise personal work output. Thus owning livestock under a sharefarming agreement, or the incentive that the prospect of so doing can provide, should stimulate interest in workers of high ability to join and remain in the sheep farming industry.



(4) Development of credit ratings

Unlike the dairy industry many new sheep farm owners have had little real opportunity to prove their ability to repay debt, to effectively manage finance or to demonstrate fully their managerial ability. Sharefarming with the flock ownership taken by the sharefarmer would provide the opportunity for lending institutions to assess the worth of potential farm owners before large amounts of finance were allocated to them. This should lead to fully creditworthy farmers being more clearly identified and those who were a poor risk not being so likely to enter into farm ownership.

(5) Sheep flock improvement

Genetic gain in livestock is a slow process. The earlier a farmer can start a programme of recording, selection and culling the more likely he is to achieve progress.

Young farmers are more likely to be receptive to non traditional ideas on sheep breeding. The opportunity to own their own flock many years before being able to aspire to farm ownership could result in an improved flock and improved standards of livestock management.

The main reason why sharefarming in the sheep industry is unlikely to develop to any significant degree lies in the lack of incentive for the land owner to participate.

With dairyfarming, cows have to be milked morning and night for ten months of the year. This is a regular, physically demanding, repetitive chore that has to be met wet or fine, in ill health or good health. Because the profitability of dairy farming is dependent on efficient milking procedures the twice daily shed routine cannot be successfully delegated on a casual basis to someone inexperienced with the particular

herd of cows.

Whilst he is running his own farm, in most cases, the dairy farmer must be present at this milking routine. Few men past the age of forty years relish this prospect so there is strong incentive to pass the milking responsibility to a younger man with a keen interest in extracting the maximum production from the herd. The sharemilker meets this role.

With sheep farming there is not the same repetitive physical demands. Many of the most demanding jobs such as shearing, fencing, lambing or dipping occur for only a few weeks in each year and can effectively be handled by contract or casual labour which is usually readily available.

The sheep farmer can continue in active satisfying management without undue physical strain until normal retiring age. Farming is generally a chosen vocation which the farmer enjoys, finds rewarding and satisfying and from which there is little incentive for him to prematurely give up active management.

Sharefarming in these circumstances holds little attraction.

The multi-product sales pattern of sheep farming with sales of wool, and possibly prime stock and store stock through a choice of many different outlets makes the operation of a shared income situation more complicated than in the case of a largely single product enterprise such as dairying where there is only one market for the output.

The milk output of a dairy farm is sold on a guaranteed price basis which, by regulation, is not permitted to fluctuate widely between seasons, Wool and meat selling prices although

now under price stabilisation schemes still may fluctuate to a marked extent both within and between years. The stability of income on a dairy farm lets a farmer plan debt servicing with confidence. Similarly money lenders are prepared to set lower safety margins where certainty of repayment is greater. The relative instability of income on a sheep farm makes it less easy for both the borrower and lender to operate high levels of indebtedness.

The traditional loyalty of a farm owner for his stock and station agency could be a source of conflict in a sharefarming agreement if the sharefarmer was financed by a competing concern or if a personality clash between the sharefarmer and stock firm personnel arose. This problem does not occur with dairy farming because there usually is only one co-operative concern through which milk may be disposed.

Sheep farming systems are not as homogenous as dairy systems. There are many different facets of sheep farming covering a range of climate, topographical and geographic extremes. Within these different areas different breeds of sheep are most suited. Some properties require a mixture of sheep and cattle for optimum performance, others function with sheep only. The interchange of sharemilkers and their herds is frequent and easy between dairy farms. The interchange of sheep flocks between properties is not so easily made. The fear of bringing disease such as footrot with a new mob of sheep is also a deterrent for some farmers making it unlikely that they would readily accept the prospect of sharefarming.

For the above reasons it is unlikely that sharefarming will become widespread in the sheep industry. However, there are some situations where it could appeal to the farm owner and

provide an added incentive for the farm worker. One of the few recorded examples of sharefarming with sheep is contained in the report in the newspaper Dominion of September 16th, 1977 of Mr James Wilson's property at Sanson. Mr Wilson accepted a position for two years on an overseas aid project, employing a farm manager to run his property. On his assignment completion he wished to leave his time flexible and to release some capital from his farm. By selling his stock to his manager and entering into a 50/50 sharefarming agreement this was achieved. The manager in return feels he has gone several steps up the farming ladder and now has a personal investment in the property. Presumably the same could have been achieved by a straight leasing proposition but perhaps with more risk to the lessee and less opportunity for involvement and less potential for the occasional high profit year for the land owner.

Under the sharefarming agreement there is likely to be a greater sense of involvement on the owners part than in a leasing agreement. This may encourage farmers who wish, for some reason, to give up active participation in running the farm yet don't want to fully sever connections, to enter into a sharefarming agreement. For the sharefarmer, receiving a percentage of income probably provides a little better protection than the paying of a fixed rental in poor years but equally means foregoing the chance of making a higher profit in good years.

#### Summary

Whilst the advantages of sharefarming, in terms of acquiring equity capital to use in sheep farm purchasing, are as significant for the sharefarmer as they are for the sharemilker, because of

the lack of advantage for the farm owner, and because of the complications inherent in the diversity of production and marketing opportunities, it is unlikely that sharefarming will become commonplace in the sheep industry.

5.

COMPANY FARMING

Interest has developed in farm ownership under a company structure as a means of facilitating increased equity gain by the farm worker. For some time family ownership under company structure has been recognised as providing a useful means of transferring assets between generations with minimum estate duty payment. For the farm worker participation by shareholding in a farming company also offers strong advantages.

Stewart (1977) noted the increasing proportion of farm purchases by businessmen. Such purchasers are likely to be accustomed to operating within a company structure and may be more amenable to providing opportunities for young capable farmers to acquire positions as managers and to participate in the capital growth of the operation through the purchase of shares.

The facility with which shares may be transferred with low legal costs and without necessarily disrupting the management pattern is the key to the attractiveness of company ownership.

The example of company operation of Hurst and Finlay (1977) illustrates the opportunity that may be provided, not only for capital gain by all parties, but also for the opportunity to share in the expertese, experience and encouragement that the pool of talents of a diverse shareholding can provide. Where for example farm company ownership involves people with legal, financial and management skills in addition to the husbandry and production talents usually associated with a farmer, these can be utilised through the directorship in furthering the companies objectives in a way rarely available with sole person ownership.

The assets of shareholders outside the company structure can be used to provide a stronger financial base for operations through their pledging as collateral security to raise for example, development finance in a company owned proposition.

The division between income sharing and capital accretion shareholding possible within a company structure also provides a useful means whereby assets may be transferred. Advantage of this provision has been frequently taken in family transactions. A parent may retain, should he so desire, control of the company's operations, receive a preferential allocation of the income, and yet receive no gain in the capital growth of the company.

By the share portion which participates in capital growth of the company's assets being gifted or sold to the children, a rapid transference of assets can take place without the parent losing control of operations or placing his income earning capacity at undue risk.

Similar provisions could well be applied as a means of enabling capable farm workers to build up capital while working for a company owned farm.

A disadvantage inherent in company farming is the danger of incompatibility amongst shareholders in regard to the company's aims and objectives. Such a situation could conceivably lead to dispute and conduct detrimental to progress by one or other of the shareholders. Because each shareholder is part-owner considerable influence can be applied to the company's management. Unless all associated with making management decisions can agree to follow a policy laid down the company's performance may not measure up to expectations.

The disadvantages of taxation being assessed on company profits and again on monies received as dividends by shareholders is less significant in the case of a company owned farm where money earned is re-invested in tax deductible agricultural development and where the managers' salary very often requires most of what would comprise the taxable profit under a sole person ownership.

### Summary

Company farming offers an opportunity for the gradual accumulation of equity through share value appreciation or through the ease by which transference of capital between shareholders may be effected with minimum disruption to management. The management structure of a company enables the incorporation of people with a greater diversity of skills than is easily possible under a sole person ownership.

Company ownership offers advantages both to older financiers and younger farm workers. An increase in company ownership of farm land, contrary to widely held opinion may in fact increase the opportunities for farm workers to progress to managership and ownership



6.

LEASING

Leasing of land by a prospective farm owner provides a useful means by which experience can be gained, creditworthiness established, and equity in stock or plant built up.

For the person endeavouring to accrue capital to purchase his own farm, leasing in this sense is probably restricted to contracts involving not longer than five year terms. Such transactions are a matter of agreement between the parties. No standard conditions are laid down although most leases of this type contain provisions requiring the lessee to adequately maintain the property by farming under accepted good husbandry practice.

Leasing land may be carried out as an adjunct to other income earning employment, or may involve the lessee in a full time operation. There are some significant advantages in the leasing of land compared with sharefarming for the young farmer striving to build equity.

These advantages include:

- (1) Leasing, once the conditions embodied in the lease have been met, enables the lessee to exercise his own ideas more freely - he is not constrained by the owners agreement to provide such necessary inputs as fertiliser or by the need to obtain the owners agreement to a change in production system.
- (2) In a lease agreement offering compensation for improvements there is a greater scope for equity gain. Expenditure on development is likely to be able to be offset for tax purposes against the assessable income of the lessee. Compensation received for the improvements at the termination of the lease

is unlikely to be deemed assessable income. Thus more rapid tax paid cash can be accumulated.

(3) A lease agreement may contain an option to purchase at the expiration of the lease term thus enabling a progressive build up in capital with minimum disruption to the lessee's family through having to shift to another district and reduced costs in the changeover.

(4) Any increase in production leading to increased income is wholly gained by the lessee. In sharefarming the owner will receive a proportion of any increase thus reducing the attractiveness of extra effort by the sharefarmer.

Perhaps the biggest disadvantage of leasing compared with sharefarming lies in the fixed rental which is required to be paid regardless of level of income. Where rentals are based on land value alone the effect of the escalation in land prices has been to create a substantial burden on the lessee when lease rentals have been renewed.

An example of the very rapid financial progress that can be made under a lease situation is described by West (1977).

### Summary

Because leasing provides an opportunity for the use of a capital-demanding resource in return for the payment of an annual rental, it is a means whereby an active, competent farmer without capital can employ his talents to his best advantage.

Leasing of land enables capital to be accumulated either through the use of deposits of surplus profits into special savings schemes or through the acquisition of stock and plant. Leasing also provides the opportunity for management skills to be demonstrated and credit ratings acquired with farm servicing organisations thus making lenders more confident of their clients ability in future transactions. Through prudent leasing the skilled young farmer may make substantial progress towards a goal of farm ownership.

7.

POOLED INVESTMENT FOR CAPITAL GROWTH

Some groups outside farming have formed pension and superannuation schemes with a view to providing inflation protected investments that yield a lump sum on retirement. For example under a deed dated in 1972, the Canterbury Diocese Church Property Trustees administer a scheme whereby staff of the diocese may make regular and irregular deposits to a fund administered by the Trustees and invested in property and other investments. Each year the assets of the fund are revalued and apportioned pro-rata amongst the contributors.

Individual shares, as assessed at the last annual valuation, together with the value of contributions paid subsequent to that date, may be withdrawn upon a person dying, attaining the age of 65 years, or leaving the employment of the diocese.

Such a scheme enables many persons small deposits to be grouped for investment. Obviously the skill of the managing trustees is of paramount importance in achieving a successful result from such a scheme.

In the example cited, deposits are eligible for deduction against tax assessable income up to individual limits for superannuation contributions.

This concession significantly increases the potential value of the yield likely to be returned.

A similar scheme for farm workers to pool savings for investment in a substantial inflation-protected venture could be established. If the savings were intended to be withdrawn prior

to retirement or death they would not normally be deductible against income tax assessable income under superannuation provisions.

However in view of existing Government support for persons buying their first farm it would seem possible that deductibility in such a situation could be negotiated.

Whether such a scheme could be made sufficiently attractive for farm workers to encourage them to deposit savings in what must be essentially a risk investment and where individually the farm worker would have no control over the money seems doubtful. Farm workers, like farmers have a tradition of individuality with little collective action. Strong inducement in terms of deposit subsidisation by employer, Government or some other institution would probably be required to make the scheme viable.

The management operation costs of the scheme, including annual revaluation, supervision and maintenance of assets, and notification to depositors would be expensive. Farm workers would be unlikely to have large sums to deposit and the administration of many small amounts would create added expense.

#### Summary

The availability of the Government guaranteed heavily subsidised Farm Ownership Savings Schemes and Inflation Adjusted Savings Bonds reduces the appeal of a pooled equity investment scheme to encourage and retain farm workers.

8.

CONCLUSION

For many years in New Zealand there has been a trend towards a decreasing number of farm holdings of increasing average size. The farm work force has also generally declined in numbers. Since 1973 statistics on both farm holdings and the farm work force have suggested a reversal of the trend with the number of people employed rising and the number of farm holdings increasing while the average size decreased. Some statistical discrepancies make it difficult to interpret the significance of these figures but increasing development of small holdings adjacent to urban concentrations of population may well account for this apparent change in the pattern of farming opportunity. If this is the explanation the bulk of New Zealand agricultural industry will not be affected.

Up to the present the number of new farm owners each year has been adequate to maintain an active farming industry with no evidence of increasing age amongst farm owners as a group. However there has been a steady decline in the number of school leavers who have expressed an intention of making farming their vocation. Recruitment from school leavers is now probably below the numbers required to keep the industry viable.

In the past five years there has been a dramatic escalation in the capital required to purchase land, stock, and plant. Cumulative increases in these items over the past five years have been well in excess of inflation in the economy as a whole and far in excess of increases in wages paid to farm workers.

The effect of the escalation of the capital ingoing required for farming has been to discourage young persons from believing

farm ownership can be achieved by the traditional method of saving money. Without a belief that farm ownership can be achieved it is likely that adequate recruitment into the farm labour force will be increasingly difficult to maintain.

To counter the effects of inflation and to encourage young persons to actively undertake farm work and save towards the ownership of their own property, Government has introduced a number of schemes offering generous rewards to eligible participants. Used in conjunction with traditional stepping stones to farm ownership such as sharemilking or leasing land these schemes can provide a ready means by which a young person aspiring towards farm ownership can progress towards his goal.

The opportunity to extend these equity sharing schemes into other avenues such as sharefarming in the sheep industry or into pooled contribution investment schemes for farm workers does not seem probable on any substantial scale.

Despite the dramatic rise in the capital required to purchase a farm, the schemes reviewed in this project and the examples of people cited in the references show that it is still possible, when prepared to work hard and to make short term sacrifices in consumption spending in order to build a pool of wisely invested savings, for the young farmer to achieve a goal of farm ownership within a reasonable time.

It is essential however that the savings provisions available and the success stories of these persons who achieve their farm ownership goals through use of the various schemes, be widely publicised in order that sufficient numbers of school leavers and other recruits continue to be attracted to the farming industry with the prospect of eventual farm ownership.

Without such financial inducement it is unlikely that agriculture will retain the drawing power to attract enough recruits of sufficient determination and dedication to ensure a progressive industry capable of continuing to provide the basis for the nations foreign exchange requirements.



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