

**[Working Paper]**

# Family-run Farming in Germany: Structural Change and Policies to Support Small Farms

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## **Abstract**

Structural change in the German agricultural sector is still ongoing. The total number of farms declines every year by roughly 3 percent. Especially small farms close down while only the number of large farms with more than 100 hectare increases. Nevertheless, most farms in the Western part of Germany are run by a family with only few employees at the most. But in the Eastern part agricultural co-operatives and stock companies with some thousands hectare of agricultural area dominate the farm structure due to the agricultural system of the former German Democratic Republic. In the same way animal production tends to be increasingly concentrated in larger units which are often criticized in the society as so-called industrialized farming.

In the public debate can be observed that many consumers would prefer a form of agriculture which is based on family-run farming and higher animal welfare standards. Several elements of the German agricultural policy such as subsidies for the agricultural health insurance and pension systems or the simplified taxation rules for small farms seem to support family-run farming. But these measures even implemented decades ago could not stop the structural change to large-scale farming in Germany.

## **1. Introduction**

Germany was divided into the Western and the Eastern part after the Second World War. However, even 25 years after the Reunification in 1990 the farm structures differ very much between West and East Germany. As in many other Western European countries family-run farms are typical for the agriculture in West Germany, while large-scale cooperatives dominate the farm structures in East Germany. This important difference can be explained by the agricultural policy system of the former German Democratic Republic (GDR). Due to collectivisation roughly 90 percent of the agricultural land in the GDR belonged to collective farms and state farms while only 10 percent was cultivated by family-run farms or privately.



Fig 1. Map of Germany

Source: <http://www.mapsofworld.com/germany/maps/germany-map.gif>

## 2. Different farm structures in West and East Germany

About 1 million people were employed in the German agricultural sector in 2013. The total number of working hours is equivalent to 522,700 full-time workers (1.5 percent of the total German labour force). Most of the employed people (49.5 percent) are family workers who are engaged in family-run farms. Further 20 percent are permanent employees who mainly work on corporate farms but also on large family-run farms. Moreover, roughly 300,000 seasonal workers especially from Poland and Romania are employed during the harvest period.

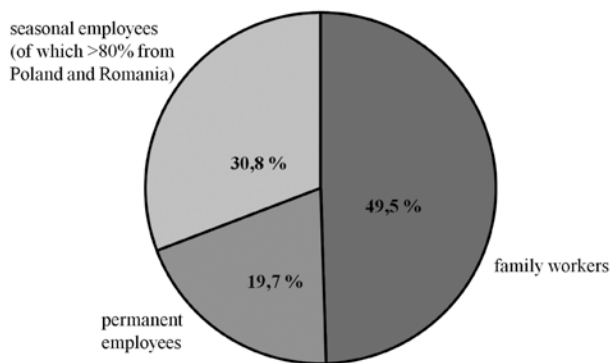


Fig 2. Labour force in the German agricultural sector (2013)

Source: German Statistical Office

The share of family workers is compared to permanent employees relatively high in West Germany while it is relatively low in East Germany.

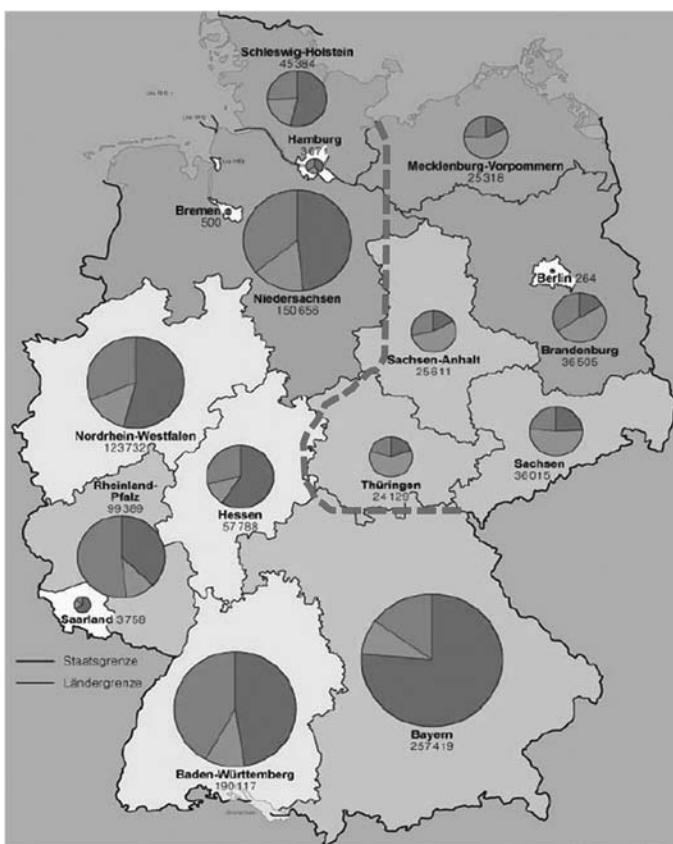


Fig 3. Shares of family workers and permanent and seasonal workers (2010)

Source: Petrick & Freier (2012)

The employment structure has changed impressively during the 10 years between 2003 and 2013. The number of family workers has decreased by 38.5 percent. However, the number of permanent and seasonal employees has increased by 5.2 percent and 8.7 percent respectively.

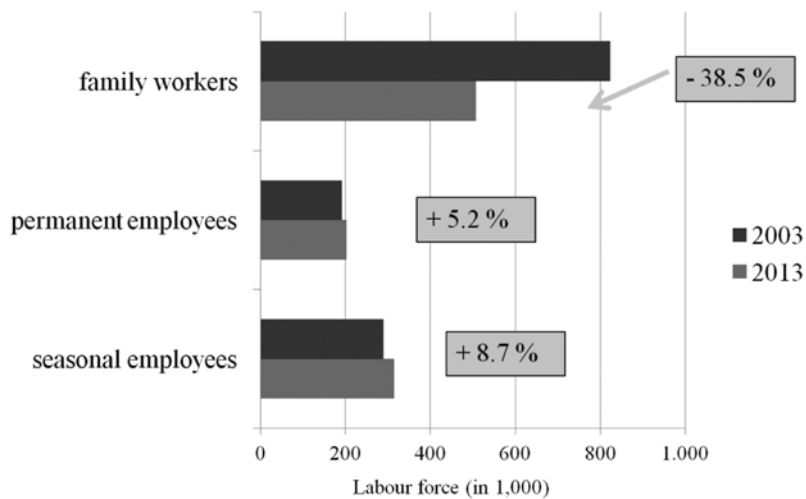


Fig 4. Change in German agricultural labour force

Source: German Statistical Office and German Farmers 'Association

Also the number of farms has dropped by 11.4 percent between 2007 and 2013. But reductions have been observable only in the number of farms with less than 100 hectare while farms larger than 100 hectare have become more.

Table 1. Structural Change in German Agriculture (2007-2013)

Farm size (hect.)	Total number of farms (in 1,000)		Change
	2007	2013	
5 – 10	85.7	69.2	-19.3 %
10 – 20	67.8	59.0	-13.0 %
20 – 50	82.8	71.5	-13.6 %
50 – 100	53.4	50.2	-6.0%
100 – 200	21.8	23.7	+8.7%
200 – 500	6.6	7.8	+18.2 %
> 500	3.4	3.7	+8.8 %
Sum	321.6	285.0	-11.4 %

Source: German Statistical Office and German Farmers 'Association

With respect to the legal structures individual farms can be differentiated from corporate farms. Individual farms (mainly in West Germany) are family-run farms and partnerships of family-run farms. Corporate farms (mainly in East Germany) can be agricultural cooperatives, stock companies, limited liability companies and other types.

Individual farms use 99 percent of the agricultural land in West Germany, while only 3,800 corporate farms are responsible for 51 percent of the agricultural land in East Germany. The average farm sizes in East Germany are many times larger compared to structures in West Germany.

Table 2. Different farm structure in West and East Germany (2013)

		Total number of farms (in 1,000)	share of agricultural land	average farm size (in hectare)
West Germany	Family farms	240.3	84 %	39
	Partnerships	20.0	15 %	87
	Corporate farms	1.4	1 %	78
	Sum	261.6	100 %	43
East Germany	Family farms	15.0	27 %	99
	Partnerships	3.6	22 %	303
	Corporate farms	3.8	51 %	740
	Sum	22.5	100 %	245

Source: German Statistical Office and German Farmers' Association

In 2013 the average farm size of all 256,000 family-run farms was about 42.5 hectare. Farms of full-time farmers (48 percent of all family-run farms) are with 66 hectare on average three times as large as farms of part-time farmers (52 percent of all family-run farms, 21 hectare on average). The number of family-run farms has decreased by 2.6 percent per year between 2007 and 2013. Only 37 percent of the older full-time farmers are sure that they will have a successor.

The structural change in livestock production is even faster. An increasing concentration in large production units takes place. 45 percent of all cows in Germany are in herds with more than 100 cows and 41 percent of all pigs are in herds with more than 2,000 pigs. Family-run farms have to decide either to invest in large expansion or to stop livestock production altogether. But large livestock production units are increasingly criticised by society.

### **3. Critics of society**

About 20,000 people protested against industrialised agriculture on Jan 17, 2015 in Berlin. They claimed for the re-orientation of the agricultural policy, for higher animal welfare standards, against antibiotics in animal production, against GMO's in agriculture and for higher agricultural product prices so that higher animal welfare and environmental standards can be achieved and so that relatively small-scale family-run farms can survive.

### **4. Policies to support small farms**

To generate higher agricultural product prices only for farmers in Germany might be unrealistic because Germany belongs to the common market of the European Union which guarantees free trade of goods between all member countries. The Common Agricultural Policy (CAP) of the European Union contains different measures to support small farms such as redistributive payments and payments for young farmers. Furthermore the German national agricultural policy system offers financial support of the agricultural health insurance and pension insurance system as well as simplified taxation rules for small farms and tax relief.

6.7 percent of the national envelope for direct payments of the CAP is spent in Germany for the so-called redistributive payments. Each farmer gets an additional support of 50 Euro/hectare for the first 30 hectare and 30 Euro/hectare for the next 16 hectare. The total support of a farm with 46 hectare is about 2,000 Euro per year which is mainly financed by reduced payments to farms with over 100 hectare.

To encourage more young people to take over a farm, 1 percent of the national envelope for direct payments of the CAP is spent in Germany for young farmers' payments. Each farmer younger than 40 years receives about 44 Euro per hectare for the first 90 hectare and for five years at the maximum. So a young farmer with 90 hectare can be supported during the whole period of 5 years by almost 20,000 Euro.

70 percent of the German national budget for agricultural policies supports the specific agricultural social security system, in total roughly 3.1 billion Euro per year or 12,000 Euro per family farm. Small farmers benefit by reduced health insurance contributions and farmers with low incomes get reductions on their pension insurance contributions. Furthermore the agricultural security system is compensated for demographic impacts of structural change because of the decreasing number of contributors in relation to the retired farmers.

Small farmers can also benefit from reduced bureaucracy when filing their tax returns.

Due to a specific value-added tax for family-run farms they do not need to file complex VAT returns. Small farmers (less than 20 hectare) can opt for taxation on average rates and benefit from reduced expenses for tax consultants. Moreover, a certain tax free amount is deductible on agricultural revenues under 30,000 Euro per person and year.

## **5. Conclusions**

During the last decade the number of family-run farms and family workers in Germany was decreasing. However some policy measures exist that support especially small agricultural farms but Germany has rather no political strategy that ensures the survival of small-scale structures in the long-run. The tendency to larger units of agricultural production will continue due to economic returns to scale. Therefore growing differences between social perceptions and expectations, and the reality of the German agriculture can be expected in the future.