

THE UNIVERSITY OF MANITOBA
GOALS AND ASPIRATIONS AND THE
LOW INCOME FARM PROBLEM

by

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ABSTRACT

GOALS AND ASPIRATIONS AND THE LOW INCOME
FARM PROBLEM

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This study was concerned with the low income farm sector in Canada. The motivational problem associated with low income farmers formed the specific problem for the study. Two aspects of the motivational problem were investigated: (a) the extent to which it exists in the Canadian agricultural sector, and (b) whether this problem is a significant limitation to the economic achievement of low income farmers.

Two hypotheses were tested. Hypothesis one was: High income farmers are motivated more towards monetary goals, and have higher levels of aspiration; while low income farmers are oriented towards non-monetary goals, and have lower levels of aspiration. Hypothesis two was: *Ceteris paribus*, the differences in motivational characteristics between the low income and high income farmers are significant determinants of the differences in economic attainment between the two farm income groups.

To test the first hypothesis, data on goal orientation and levels of aspiration of farmers were obtained from a survey, carried out in the Carman area of the province of Manitoba. Analyses of the data

showed that the high income farmers did have significantly higher levels of aspiration, and were more significantly oriented to monetary goals than the low income farmers. These results supported hypothesis one.

A theory of entrepreneurial decision making on the farm firm was developed for testing the second hypothesis. An analytical form of this theory was utilised to incorporate a representative pattern of goal orientations and levels of aspiration of low income farmers in the survey, into a production decision model. Similarly, a second production decision model, representative of the goal orientations and levels of aspiration of high income farmers in the survey, was formulated.

The production decision models were then introduced into two farm firm growth models, which were used to trace the development of two hypothetical farm firms over a 20 year planning horizon. The first growth model was for a representative low income farmer, while the second was for a representative high income farmer.

The growth models were run under various conditions, with *ceteris paribus* conditions being maintained for all but motivational factors. All tests indicated that the economic attainment of the representative high income farmer was always significantly higher than the economic attainment of the representative low income farmer. These tests therefore supported the second hypothesis, and demonstrated that motivational characteristics have a significant effect on the levels of economic attainment of the farmers. This is a major contribution of the study.

One of the policy conclusions from the study was that it may be

possible to alleviate the motivational problem of the low income farmers. If these farmers can exceed their expectations of income attainment, this could lead to an increase in their levels of aspiration, and the adoption of monetarily oriented goal patterns.

It is therefore suggested that governmental action, with respect to the motivational problem of the low income farmers, should take the form of a Farm Income Improvement Programme. This programme would aim directly at widening the margin of financial returns received by farmers. Such a programme would represent a change in the orientation of current governmental policies concerning the low income farm problem, since these policies remain focused on resource development and resource adjustment on low income farms.

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Chapter 1

INTRODUCTION

The motivation to undertake the study reported in this thesis resulted from an examination of the impact of governmental policies and programmes on the low income farm problem in Canada. The evidence seemed to indicate that governmental activity was not having the desired effect, despite the number and variety of programmes tried. It was therefore decided that this research effort should re-examine the low income problem to determine if new approaches to the problem could be devised.

This chapter will present the low income farm problem, and the particular aspect of this general problem on which the study concentrates. This chapter will also provide an outline of the organisation of the thesis.

The Problem

Nature of Low Income Problem

In the literature three aspects of the low income farm problem have been emphasised (5). They are:

- (a) the physical asset problem,
- (b) the resource adjustment problem, and
- (c) the preference problem.

These aspects will be examined from the resource level of the farms. The income obtained by a farmer can be defined as the sum of the products of the resources held by the farmer and the earning rates of these resources. This can be described mathematically as:

$$Y = \sum_{i=1}^n r_i e_i \quad \text{where;}$$

Y = income of the farmer, n = number of resources held,

r_i = the holding of resource i , and

e_i = earning rate per unit of resource i .

If the quantity of resources held by the farmer is small, regardless of the earning rates of these resources, his income may never reach acceptable levels. Closely related to the problem of the quantity of resources is the question of their productivity. To the extent that the productivity of resources held by the farmer could be improved, this would increase the real (physical) quantity of output. Thus his resources could earn him greater income because of an increase in their earning rates (given constant output prices). The physical asset problem is concerned with these two aspects of the low income farm problem - resource limitations and resource productivity.

The resource adjustment problem is concerned with the earning rates of the resources held by the farmer. In the competitive environment of the markets for agricultural resources, the earning rates are largely determined by the supply and demand forces in the sector. If the supply of resources is very large (compared to demand) and declining slowly, this could cause the earning rates to be low, especially if demand is not growing at a fast enough pace. Low earning rates of resources in agriculture may have been characteristic of the agricultural sectors of most Western developed economies in the years following World War II, though there is some doubt as to the general relevance of a resource adjustment problem in the present day economic milieu.

The last aspect (c), the preference problem is concerned with the

fact that some farmers may have low incomes by choice, since they are not motivated to seek high monetary incomes. These individuals may choose to employ their resources in lower earning uses or in leisure. No real income problem may exist as far as these individuals are concerned. Rather there is a conflict of interest between the use that society thinks the individual should make of his resources, and personal goals and values. National income is usually taken as an index of social welfare, therefore only goods and services which are sold through the market count as contributing to social welfare. Individuals who prefer non-monetary to monetary returns, thus are frequently accused of using their resources inefficiently.

Lipsey (39: 435-437) suggests that if some individuals in a sector derive greater non-monetary benefits in the use of their resources, ceteris paribus, they should be prepared to accept lower monetary incomes to remain in that sector. Thus within the sector, income differentials will persist even into the long run. In this way if a preference problem exists in agriculture, it could be expected to give rise to a sub-sector deriving lower money incomes from farming.

Extent of Low Income Farm Problem in Canada

The question that arises is to what extent a low income farm problem exists in Canadian agriculture. In discussing the Small Farm Development Programme (SFDP)¹ in August of 1973, Mouelhi and Burns (54) stated that there were between 125,000 and 150,000 low income farm families in Canada, who required assistance under governmental programmes

¹This programme along with other previous governmental programmes will be discussed in detail in the next subsection.

such as SFDP. Such assistance, they stated, is necessary ". . . to provide them with the opportunity of bringing their income up to an acceptable level by Canadian standards."

In this study, the low income farm sector is defined as all farm families with total family net income below \$6363.² Statistics Canada income tax data for 1973 (71) states that there were 167,257 farm tax filers with total net income below \$6363. To the extent that more than one farm tax filer live in the same family, the income tax data would tend to overstate the size of the low income farm sector. However, these data do support the contention of Mouelhi and Burns that the low income sector in Canada is somewhere in the region of 150,000 farm families.

The 1971 Census of Agriculture (69) reported that there were 365,068 farms in Canada, which would suggest that the low income farm sector comprises approximately 41 percent of the agricultural sector. The 1973 income tax data indicated that the low income tax filers (total income less than \$6363) comprised 43 percent of the total number of farm tax filers. The similarity of the percentage of low income farm tax filers in 1973 (43 percent), and the percentage of low income farmers based on the 1971 Census (41 percent) is again noted.

Review of Governmental Policies

For at least 40 years, there have been governmental programmes in Canada designed to provide assistance to low income farmers. Buckley and Tihanyi (8) have provided a detailed review of three of these

²This definition is fully developed in Chapter 3, which deals with the definition of farm sector boundaries.

programmes. They are the Agricultural Rehabilitation and Development Act (ARDA), the Prairie Farm Rehabilitation Act (PFRA) and the Maritime Marshland Rehabilitation Act (MMRA).

PFRA was launched in the drought years around 1935, when repeated crop failures and widespread farm abandonment gave rise to fears that large areas of Western Canada would be lost to agriculture. A resource development type approach was taken, and it concentrated on water and land development. Buckley and Tihanyi (8: 11) concluded that PFRA had little direct effect on the incomes of low income farmers, who had relatively few resources which could have received benefits from the developments. Generally however, it did assist in halting soil destruction on the Prairies and introducing improved farming methods.

MMRA was passed by the Federal Parliament in 1948, and was developed to ensure the protection of agricultural lands from salt water flooding in the Fundy Region of New Brunswick and Nova Scotia. The resource development type approach was again adopted. It was reported that there was no evidence that the programme of protective structures had extended marshland agriculture, or provided for more intensive utilisation of the protected lands. Buckley and Tihanyi concluded that the Fundy Region appeared to remain an area of land abandonment and low income farming, and they expressed concern that the investment in the project failed to produce significant additions to farm income.

While PFRA and MMRA were exclusively federal undertakings, the ARDA agreements were joint programmes of the federal and provincial governments. The first ARDA agreement of 1960 was more clearly aimed at solving the low income farm problem. It was however dominated by the resource development type approach of PFRA, and this fact probably

explains the minimal impact it made on the problem. The second ARDA agreement (renamed the Agricultural and Rural Development Act) was signed in 1965. This programme did include aspects of rural adjustment in addition to resource development. These adjustment policies included comprehensive manpower and farm purchase programmes, to assist the needs of rural people wishing to re-establish themselves in non-farm employment. However the emphasis in this second ARDA programme remained centred on land resource development.

By 1969, it seems that the policy makers became aware of the general inadequacy of the then current governmental programmes for solving the low income farm problem. The Federal Cabinet thus established an Interdepartmental Committee to give careful consideration to governmental policies and programmes to alleviate the problem. The report of the Interdepartmental Committee (9) provided the framework that led to the Small Farm Development Programme (SFDP) which was announced on December 6th 1971 (54).

The SFDP has two main thrusts. The first is to assist those farmers who wish to leave agriculture to liquidate their assets and undertake non-farm employment or retire. This assistance includes manpower programmes to upgrade the training of those farmers willing to undertake non-farm jobs, and the provision of services to facilitate communication between prospective vendors and purchasers of farms.

The second thrust is to assist those farmers, who have the potential for growth of their farm incomes, to enlarge their land holdings and improve their operations. These farmers would be provided with adequate credit for land purchases, and would have first choice in the purchase of assets of farmers leaving agriculture. They would also