UK agricultural policy
within the
European Community

J S Marsh

CAS Paper 1 · November 1977
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Centre for Agricultural Strategy
University of Reading
Earley Gate
Reading RG6 2AT

November 1977
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The main aim of the Centre is the formulation of agricultural strategy for the United Kingdom (UK). Two of the important determining elements of UK strategy are the constraints imposed by UK membership of the European Community and by the provisions of the Common Agricultural Policy (CAP). The Community has legislated on many aspects of food, agriculture, forestry and fisheries in the interests of the closer integration of the nine member countries. Nevertheless, the extent to which decisions about UK food, agriculture, forestry and fisheries can continue to be made within the UK and the need to formulate a UK view of the development of the Community and the CAP should not be under-estimated.

To clarify the relationship between UK agricultural strategy and the CAP, the Centre has sought the views of Professor John Marsh who has taken a particular interest in the effect of membership of the Community on UK food and agriculture. In this paper, Professor Marsh outlines the considerable scope for decision-making which the UK still retains and proposes a number of important changes which could alleviate some of the stresses besetting the CAP.

It is felt that Professor Marsh’s proposals are of considerable interest to a wide audience. The Centre is therefore publishing his contribution as the first in a new series of papers representing the views of specific authors; these papers will supplement the Centre’s main reports. The Centre’s staff and the members of its Local and Advisory Committees do not necessarily concur with the views expressed in such papers.

John C. Bowman
Director
ABBREVIATIONS

CAP  Common Agricultural Policy
COPA Committee of Professional Agricultural Organisations
      (Farmers' Unions in the Community)
COREPER Committee of Permanent Representatives
FEOGA European Agricultural Guidance and Guarantee Fund
fob Free on board
GDP Gross Domestic Product
MCA Monetary Compensatory Amount
ua Unit of account
UK United Kingdom

METRIC EQUIVALENTS

Area
1 ha = 2.471 acres

Length
1 m = 3.281 feet
1 km = 0.621 miles

Volume
1 litre = 0.22 gallons

Weight
1 tonne = 0.984 long tons
Summary and proposals

1 Membership of the European Community means that many of the policy decisions which affect UK agriculture have to be taken in co-operation with other members through the Common Agricultural Policy (CAP). However, some aspects of agricultural policy still remain within the discretion of the UK government and UK decisions about other matters affecting the overall economic environment may greatly affect the performance of home agriculture. A UK government has thus to determine its strategy for agriculture in relation both to what it may negotiate through the CAP and what it may hope to achieve through domestic policies.

2 Two objectives have dominated UK agricultural policy since the Second World War: the provision of an adequate supply of food at moderate cost and the efficient use of home agricultural resources. To a considerable extent these objectives have been pursued through the use of subsidies: food subsidies when world prices have been high and agricultural subsidies, in the form of deficiency payments and production grants, when imports have been available at low cost. These objectives remain important but the context in which they must be pursued has changed.

3 The most important change has occurred because the CAP usually maintains prices to farmers at a high level compared with world prices. In contrast to past UK practice, this is achieved by restricting the total supplies reaching the market so that consumers have to pay the full support price. The effect is a substantial increase in food prices and a real loss to the UK balance of payments.
4 To obtain a food supply at moderate cost the UK must now consider what changes it can hope to promote within the CAP and the contribution its own agriculture may make towards reducing the loss to the balance of payments. Fundamentally, agriculture's contribution must depend upon the relative productivity with which it uses resources compared with other industries. Measurement of past performance is difficult and sheds no certain light on future productivity levels. Nevertheless, evidence from recent experience suggests that agriculture's claim to additional resources is, if full CAP prices were to apply, at least as strong as that of other industrial sectors. At present, the existence of Monetary Compensatory Amounts (MCA's) lowers the cost of food imports and lessens the attraction of investment in agriculture. It is argued that the benefits of MCA's to the UK economy are less certain than seem likely at first sight and that their permanence cannot be taken for granted. If they do disappear then the need for extra output from UK farms might become urgent.

In deciding its approach to CAP negotiations the UK government has a profound interest in reducing the level of official agricultural prices in real terms. Inflation provides an opportunity to do this by resisting increases in nominal prices which would offset the fall in the value of money. However, a totally negative approach is likely to damage UK relations with the Community and to make the Community itself a less effective institution. To avoid this, three suggestions are made about changes in the CAP which the UK might promote.

5 The first suggestion concerns the handling and avoidance of surpluses. It is proposed that at each annual price fixing for the Community, the Council should also state the maximum quantity to which the fixed prices relate. Intervention purchases or export restitutions would initially be paid only in part. Final payment would be made at the end of the harvest year. Should the total quantity seeking support exceed that designated by the Council, the final payments would be reduced so as to keep the total sum spent within the maximum amount allocated. Such a policy would limit the budgetary consequences of surpluses. Whilst providing some assurance against the collapse of markets in response to unexpectedly good harvests, it would discourage long-term surplus production. Market processes, too, would assume more significance. Faced by a potential surplus, sellers would have to consider whether an offer to buy below the full 'official' price might ultimately be worth more than would be received from intervention or export restitutions. The element of automatic adjustment in price would help to make competition work in the agricultural sector. If improved technology resulted in surplus, the
more efficient producers might continue to prosper whilst those whose costs were higher would be encouraged to cease production.

6 The second suggestion is that the Community should stop trying to fix producer and consumer prices within each country. Instead, the annual Community price fixing should focus on a 'trading price' for movement of goods between member countries or for entry from outside the Community. Individual governments would be free to establish different internal prices for consumers or producers or both. Sales or purchases to other countries would take place at the Community price by means of taxes and subsidies analogous to MCA's. The full cost of maintaining different internal price levels would, however, fall on the government of the country concerned, not on the budget of the Community. Such a development would free the Community budget of MCA's and change the framework of price fixing in the Community. Essentially, the trading price would embody a margin of preference for Community producers. This might incorporate any elements of food security or food aid the Community judged to be appropriate but it need not be affected by the problems of social adjustment in agriculture. Such adjustments would be principally a responsibility of member governments as is currently the case for other sectors. Because funds could be released from price-supports, the Community could give additional aid to supplement national efforts towards adjustment. This suggestion, linked with that for a fixed maximum quantity eligible for price support at Community level, would give a system whose price mechanism could operate constructively to achieve the level of output which the Community wished to produce from its own resources.

7 The third suggestion is that UK governments should seek to promote those aspects of the CAP which tend towards a convergence of national interests. Foremost amongst these are measures which improve the efficiency of use of resources in Community agriculture. Such measures permit farmers and exporters to enjoy higher incomes and consumers lower prices. A second strand is formed by regional policies designed to stimulate non-agricultural employment in rural areas. The gains here are in improved agricultural efficiency and in higher output in other sectors. Success in such policies requires improved levels of employment in the Community. These seem likely to require mutually supporting economic policies among the member states. The UK has a great interest in promoting more effective co-operation at this level.

8 Apart from its influence upon the CAP the UK can still affect the success or
failure of its agriculture through its own policies. This paper suggests that a prosperous and moderately expanding UK agriculture is likely to be in the national interest. If this is accepted, the government may help agriculture directly, for instance through education and extension, or indirectly, by taking into account the effect on agriculture of other policies. Recent changes in capital taxation and in conditions of employment show that policies pursued for reasons of broad policy may profoundly affect the competitive ability of agriculture. Attention to the details of such policies and evaluation of their impact on farming may help to ensure that UK agriculture is able to make its full contribution to the success of the UK economy.
The purpose of this paper is to discuss the options open to UK policy makers within the framework set by the CAP. At first sight it might be thought that the common policy of the Community virtually replaces national policies except in rather peripheral matters. In fact, partly because of monetary developments, but also because of the attitudes of member governments towards the Community, there remain a variety of ways in which the UK government can influence UK agriculture. In doing so, traditional concerns, food prices, balance of payments costs, regional problems and the management of the economy are likely to continue to be important. However, it may now be appropriate to ask for a different UK response from agriculture than that which characterised the 1960's.
2 In what sense does the UK have an agricultural policy?

The Rome Treaty required the Community to establish a common policy for agriculture. Since 1958 a variety of product regimes has been agreed and arrangements to encourage the structural reform of agriculture introduced. The product regimes are designed to maintain the prices of important agricultural products at levels thought appropriate for the Community only and to give effect to Community preference so far as purchases from non-member countries are concerned. Price levels are reviewed annually and any change must be agreed upon by the Council of Ministers on the basis of a proposal of the Commission. In these decisions the UK has a voice. Before any formal proposals are made, representations can be submitted to the Commission. An important avenue for such representations is the 'pressure group' especially when organised at a European level. Organisations such as the Committee of Professional Agricultural Organisations (COPA) which unite farmers' pressure groups, can influence the sort of proposals which are made. Within the institutions of the Community there exist other methods of making a contribution to decision taking. At an organisational level the management committees which deal with the day-to-day problems of administration include UK representatives. The UK also appoints members to the Economic and Social Committee which must be consulted on all Commission proposals. The European Parliament includes UK members who can cross-examine the Commissioner responsible for agriculture. The Committee of Permanent Representatives from the member countries to the Community (COREPER) examines issues coming before the Council and identifies those which will need full and formal debate. In doing so it may, in effect, negotiate points with the Commission so as to minimise the area of disagreement among member states. The UK appoints its own representatives to this committee. In shaping proposals for agriculture the UK can exercise influence. What is
eventually proposed has, however, to reflect the interests of all member states and of the Community as a whole. Inevitably there are many issues upon which the various interests conflict. As a result progress depends largely on ‘trade offs’ between members. Considerable ingenuity is exercised in discovering such ‘trade offs’ which may extend to matters beyond agricultural policy itself. If no agreement can be reached on matters of vital national interest, the UK (like other countries) may exercise what amounts to a veto. The effect of the veto is to stop unwanted change; it cannot bring about desired changes. Thus the ability of the UK to shape the CAP to take account of its interests is asymmetric; power to bring about changes through the avenues of consultation and debate is rather weak but there is a strong power to frustrate changes through the veto.

How frequently and on what issues a blocking ‘no’ vote can be used is a matter for political judgement. To do so lightly would disrupt the Community and threaten its continued existence. There may be some UK ministers who, to judge from their attitudes to the Community at the time of the referendum, would welcome its demise. However, both those who see the Community only as an opportunity to promote UK interests more effectively and those who genuinely wish to take part in the development of a more united European Community must reject the indiscriminate exercise of a veto. The frustration of action within the Community may be damaging to interests which other members regard as vital. If they are unable to obtain redress through the Community they may do so through diplomatic or economic pressure. For example, the dependence of sterling upon the support of other countries may make it difficult to sustain a policy which is opposed by major creditors. Confronted by such pressure, issues of agricultural policy may assume relatively low importance to a UK administration.

There are a number of other ways in which scope exists for national policy initiatives. First, some products, notably sheep meat and potatoes, are currently not subject to common market organisation. While discussions are going on at present to create a single market system for these two products, agreement appears difficult to achieve. In particular, in the case of sheep products, there has been extensive interference in the trade between the UK and France. As a consequence, the organisation of the market for these commodities remains almost entirely a national concern.

Second, the structural aspects of the CAP rely on directives rather than regulations. Although the UK is required to bring about certain structural policies, it retains considerable control over the way in which this is done. Thus by choosing devices which match UK circumstances the government can make the Community’s structural initiatives more or less effective in the UK.

Third, the national administrations differ in respect of their enthusiasm and
effectiveness in administering the CAP. For example, a tolerant approach to quality standards at intervention may make a perceptible difference to prices compared with an attitude which seeks, whenever possible, to reject goods offered. Allegations are frequently heard of different standards in administration. The problem may perhaps be exaggerated but it seems unlikely that mis-administration by one nation, which was against another's national interest, would be allowed to last for long.

Fourth, the implications of any price decision reached at a Community level depend upon the particular economic context within which individual farm businesses operate. Rules about taxation and planning may affect farms directly. Indirectly, the prevailing rates of interest, level of employment and rate of inflation greatly influence the significance of any particular price level. All these issues are principally matters for national governments and may mean that a common price has very 'uncommon' effects in various countries.

Finally, the existence of monetary compensation enables countries to retain a constant internal price level for CAP products despite changes in the rate of exchange for their currency. Since other goods and services within the countries concerned are not so shielded, the effect is a change in the real value of agricultural prices (upwards in revaluing countries and downwards in devaluing countries). It is implausible to suggest that countries allow their market rates of exchange to vary simply as an act of agricultural policy. However, when changes have taken place which affect the economy as a whole, then the rate at which these changes are communicated to the food and agriculture sector is determined by the member country concerned. Thus, for example, in 1975/76 the UK has been able to keep the real price of food down by refusing to devalue the green pound.

The scope for national agricultural policies may seem subsidiary to the main issues of price and structural expenditure determined in the CAP. The evidence is that they are far from minor matters. For instance, the Community's report (European Community, 1975), indicated that total public, national and Community expenditure in support of agriculture amounted to 11 500 million units of account (ua). Of this, 3 100 million (27 per cent) came from price supports by the Community, 325 million (less than 3 per cent) was in the form of Community expenditure on structural reform and the remaining 70 per cent was funded by national governments. Concentration on budgetary expenditure is to some extent misleading. The CAP raises consumer prices and so achieves a transfer of income from buyers to sellers equivalent to the difference in the price at which they could have bought, had they been allowed access to supplies from all sources, and the price enforced by the Community. In 1974 this difference was small for most products but in earlier years CAP prices were sometimes
twice as high as those prevailing on the world market. Price fixing in the Community is thus very important to all member countries but national agricultural policies are also of great significance.

The UK must therefore consider agricultural policy not only in terms of what can be achieved through the CAP but also in relation to those initiatives which can be taken at the UK level.
3 The objectives of UK agricultural policy

3.1 THE POST-WAR APPROACH TO AGRICULTURAL POLICY
During the Second World War the British public became increasingly aware of the importance of domestic agricultural resources. A close and, on the whole, effective partnership between farmers and the government contributed to increased farm production at a time when imported supplies were subject to attack. At the end of the war, farmers feared that world prices might drop and their own investments prove unprofitable. There was thus a need to define afresh a strategy for home agriculture.

The objectives of post-war agricultural policy were set out in the 1947 Agriculture Act. In the guarded language appropriate to official documents it sought a 'stable and efficient agricultural industry capable of producing such part of the nation's food and other agricultural produce as in the national interest it is desirable to produce in the UK and of producing it at minimum prices consistent with proper remuneration and living conditions for farmers and workers in agriculture and an adequate return on capital invested in the industry'. Such a statement leaves almost any type of agricultural policy possible. In the event it has meant rather different things at different times. When food was scarce and world prices high, it sanctioned encouragement to extra output. As world prices fell the emphasis switched towards greater efficiency and a policy of selective expansion. The needs of groups whose incomes or living standards were depressed — hill farmers and small farmers — were met by specific policies, thus avoiding price increases destined to raise agricultural living standards. Lower world prices tended to make the charge to the exchequer for price guarantees excessive, so a ceiling in the form of standard quantities was placed on the government’s commitment. Improved efficiency was sought through production grants. These helped to meet the cost of approved farming practices and
investment and increased the effective rate of return on the farmer's own capital without raising price levels. In the early 1970's a shift of emphasis occurred when the Conservative party decided that farmers should get more of their return 'from the market' and less from subsidies. Implicit in this was a wish to limit exchequer liability still further. It was expected that this could be done with rather modest increases in market price using a system of import regulation akin to that of the Community.

A feature of lasting importance in post-war agricultural policy in the UK was the separation of food prices (paid by consumers) from agricultural prices received by farmers. When consumer prices fell below, or were by policy kept below, the level thought appropriate for farmers, the gap was closed by subsidies. In the immediate post-war period, scarcities forced world prices to high levels; a system of food subsidies and rationing was employed to keep down consumer prices. The end of scarcity and the fall in world prices led to the introduction of subsidies known as 'deficiency payments' designed to keep up farm prices whilst allowing consumers the full benefits of lower prices. The deficiency payment system was based on the difference between the average market price actually attained and a standard guaranteed price fixed annually by the government after discussion with the Farmers' Unions. When the average market price was below the guaranteed level, each farmer received a subsidy payment proportionate to his output, regardless of the price at which he had sold. Both 'food' subsidies and 'agricultural' subsidies were funded from the budget and thus subject to scrutiny by parliament and the public. These policy mechanisms enabled UK governments to pursue simultaneously low food prices and the expansion of agricultural output. The significance of these objectives requires further exploration.

3.2 THE IMPORTANCE OF FOOD PRICE POLICY
The social and political importance of the food price is shown in Tables 3.1 and 3.2. Expenditure on food represents the largest separately identified item of consumer expenditure. Its share has tended to fall since 1956 as income levels have risen but it still accounts for about one fifth of all consumer expenditure. Table 3.2 indicates the greater importance of food expenditure among poor households. The data shown are not satisfactory for this purpose since they deal with the income of the head of the household only. The data show expenditure on food per person (not per family) and arbitrary assessments have had to be made about average household incomes (see notes to Table 3.2). The effect of these adjustments is to understate the true proportion of income spent on food by the poorer families and exaggerate the proportion spent by the richest households. This compresses the range of differences between households. Even so, it is clear
### Table 3.1

**CONSUMER EXPENDITURE ON FOOD. SELECTED YEARS 1946-1975**

<table>
<thead>
<tr>
<th>Year</th>
<th>Retail expenditure on food (£ million - current prices)</th>
<th>Expenditure on food at farmgate &amp; imports</th>
<th>% of total consumer expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>1887</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>1956</td>
<td>3784</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>5309</td>
<td>3013 (1966/67)</td>
<td>22</td>
</tr>
<tr>
<td>1975</td>
<td>12092</td>
<td>6330 (1974/75)</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: Economic Trends, Annual Supplement 1976

### Table 3.2

**CONSUMER EXPENDITURE ON FOOD IN DIFFERENT INCOME GROUPS, 1973**

<table>
<thead>
<tr>
<th>Group</th>
<th>Gross weekly income of head of household</th>
<th>Weekly expenditure on food per person</th>
<th>Expenditure on food per person as % of weekly income of head of household</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>£</td>
<td>3.30</td>
<td>3.88</td>
</tr>
<tr>
<td>A2</td>
<td>85 and over</td>
<td>2.88</td>
<td>3.97</td>
</tr>
<tr>
<td>B</td>
<td>60 but under 85</td>
<td>2.69</td>
<td>5.72</td>
</tr>
<tr>
<td>C</td>
<td>34 but under 60</td>
<td>2.64</td>
<td>9.87</td>
</tr>
<tr>
<td>D1* (at least one earner)</td>
<td>Under 19.50</td>
<td>2.49</td>
<td>12.76</td>
</tr>
<tr>
<td>D2 (no earner)</td>
<td>Under 19.50</td>
<td>2.79</td>
<td>14.30</td>
</tr>
<tr>
<td>D3 (pensioners)</td>
<td>Under 19.50</td>
<td>2.85</td>
<td>14.61</td>
</tr>
</tbody>
</table>


Notes: Group A1 incomes have been assumed to be £85 per week for the purpose of the calculation of % of income spent on food.
Groups A2, B and C incomes have been assumed to be the average of their respective class boundaries, i.e. A2 \( \frac{60 + 85}{2} = 72.5 \). Group D incomes have been assumed to be £19.50.
that an increase in food prices is likely to have a proportionately large effect on the living standards of poor people.

The most satisfactory analysis of the implications of different agricultural policies for various income groups is that undertaken by Josling & Hamway (1972). Their work showed, for example, that the deficiency payment system which operated in the UK in 1969 had less regressive effects than an import levy system (such as that used by the CAP) even at an equivalent level of price support to farmers. The application of the higher prices then enforced by the CAP would have been still more regressive. Although this study is now dated, there is no reason to believe that its general conclusion would be invalidated by more recent data.

All major political parties in the UK agree that in general a greater share of the burdens of public expenditure should be borne by the better off than by the poor. Between parties, within parties and over time the emphasis given to this concept of fairness varies. However, its persistence as a major consideration affecting all government programmes of expenditure and taxation implies that it commands a wide degree of popular consent. Given this objective it is clear that any agricultural policy which involves food prices perceptibly higher than those needed to ensure adequate supplies will be subject to continuous attack in the UK.

Apart from reasons of 'social justice' UK governments have regarded food prices as especially significant in relation to counter-inflationary policies. At times this has been spoken of as farming's part of the 'social contract'. Whatever the terminology, those who see incomes policies as necessary to reduce the rate of inflation, have accepted that income policies must be accompanied by price policies which limit price increases. In the light of experience, this analysis may have to be questioned but it undoubtedly forms an important part of the thinking of recent UK governments and of their attitude to food prices.

Paradoxically, and from a farmer's point of view unfairly, the currently high rates of inflation in the UK in no way lessen this pressure. Food prices in the retail shop are only partially determined by farm gate or import prices. Processing and distribution account for about half of food expenditure. In these sectors, which are often labour intensive, the consequences of rising wages and energy prices are increased costs. As a result, even if agricultural prices were constant, some considerable increase in food prices would be inevitable.

Tables 3.3 and 3.4 indicate another important reason for UK government concern about the level of food prices. Some 45 per cent of UK food requirements are imported. Part of this consists of items such as bananas, tea and coffee which are not grown in the UK or Europe. However, almost one third of indigenous type food supplies are imported and the price at which these can be brought into the UK is a significant element in the cost of imports. At 1975 values,
Table 3.3
UK IMPORTS OF FOOD, FEED AND DRINK, 1971-1975 (£ million fob)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total imports</th>
<th>Imports of food, feed &amp; drink</th>
<th>% total imports</th>
<th>Exports of food, feed &amp; drink</th>
<th>Net import of food, feed &amp; drink</th>
<th>Net imports of food, feed &amp; drink as % of imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>8530</td>
<td>2236</td>
<td>26</td>
<td>567</td>
<td>1669</td>
<td>19</td>
</tr>
<tr>
<td>1972</td>
<td>9843</td>
<td>2401</td>
<td>24</td>
<td>636</td>
<td>1765</td>
<td>18</td>
</tr>
<tr>
<td>1973</td>
<td>14106</td>
<td>3205</td>
<td>23</td>
<td>853</td>
<td>2353</td>
<td>17</td>
</tr>
<tr>
<td>1974</td>
<td>21119</td>
<td>4007</td>
<td>19</td>
<td>1049</td>
<td>2958</td>
<td>14</td>
</tr>
<tr>
<td>1975</td>
<td>21972</td>
<td>4508</td>
<td>20</td>
<td>1368</td>
<td>3140</td>
<td>14</td>
</tr>
</tbody>
</table>


Table 3.4
HOME AGRICULTURAL PRODUCTION AS A PROPORTION OF FOOD SUPPLIES

<table>
<thead>
<tr>
<th>Year</th>
<th>% of all UK food supplies</th>
<th>% of indigenous type supplies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971/72</td>
<td>53.6</td>
<td>66.8</td>
</tr>
<tr>
<td>1972/73</td>
<td>54.6</td>
<td>66.8</td>
</tr>
<tr>
<td>1973/74</td>
<td>54.5</td>
<td>68.2</td>
</tr>
<tr>
<td>1974/75</td>
<td>52.6</td>
<td>65.2</td>
</tr>
<tr>
<td>1975/76 (provisional)</td>
<td>52.8</td>
<td>64.9</td>
</tr>
</tbody>
</table>


For example, a 10 per cent increase in the cost of food and drink imports would have implied a loss of some £450 million to the balance of payments. Since this would have been offset, to some extent, by food and drink exports which would also have received higher prices, the true cost would have been nearer £300 million. Such an amount was equivalent to some 10 per cent of the deficit on current visible trade in 1975.
The case for agricultural support in the UK has been argued on several counts. Of these the most influential have implied that the volume of output which would emerge through the autonomous working of the market is less than that which it is ‘in the national interest’ to produce at home. The argument is many sided. In time of war or extreme scarcity on world markets, food security has been a major objective. When conditions have been more relaxed it has been claimed that extra domestic farm output would contribute to an improvement in the balance of payments. A third group of arguments suggest that the level of output which would emerge from an unregulated market is less than that which would maximise economic welfare. This points to the dependence of market forces upon appropriate conditions of competition. In fact, agriculture buys from and sells to businesses which have characteristics of monopolistic competition or oligopoly. Official action to raise agricultural output could thus lead to a distribution of resources nearer to that of the competitive ideal. A somewhat similar argument maintains that suitable public policy can reduce the uncertainty which farm businesses face as distinct from simply transferring uncertainty to taxpayers or consumers. An overall view of the market may thus tend to more rational pricing decisions and enable farmers to operate at lower costs because they need not allow for such large margins of error. Although food security and balance of payments arguments have been most heavily debated, they are not the only reasons why a degree of support aimed at increasing farm output could be justified. It has been more difficult to decide how much support would be needed to ensure any particular rate of output and indeed what sort of output was appropriate.

Extra output was not the only reason for farm support. Rural social problems, although less important than in many other European countries, were part of the background to agricultural policy. Low incomes were of especial significance in the remoter hill regions and among the smaller farms. The drift of labour from the land made it more and more difficult to maintain rural schools, bus services and village shops. In contrast with depressed urban areas, the introduction of new industry seldom offered an alternative source of income. The Small Farmer Scheme (1958-1965) was a means of helping those whose incomes were low but who might, with the aid of a limited capital injection, become viable. Those who had no prospect of agricultural viability gained nothing from this policy. However in 1967 assistance was offered under the Farm Structure Scheme to encourage poorer and older farmers to cease farming and to allow their land to be amalgamated with other holdings. The payments offered were modest and the scheme attracted relatively little interest.

One of the most attractive reasons for public support for agriculture is to increase productivity. Government expenditure involves funds to promote
research and advisory work, and production grants to induce and assist farmers to apply improved methods. In principle, the potential return to the public can be very large. Greater productivity implies lower cost. This may mean lower food prices and higher output and also, if the rate of improvement is more rapid at home than abroad, that imports will tend to fall.

Agricultural policy has to operate within the framework of other policies and public concerns. Some of these have been given effect through agricultural legislation, others have led to law which has involved constraints on agriculture. Five such issues may be noted. Public health requirements are necessarily stringent in relation to food. Animal welfare is a matter of widespread public concern and some modern livestock husbandry practices have been much criticised. As the largest land using industry, agriculture has a particular responsibility for the environment. This extends not only to the appearance of the countryside but to such practical matters as water supply and soil erosion. Apart from economic rationality, a policy of substituting home production for imports has to be weighed against the political merits of trade with particular countries. For instance, the Commonwealth Sugar Agreement assured some overseas suppliers access to the UK and effectively restricted the scope for a large increase in domestic sugar beet production. Finally, agriculture has been fully exposed to changing views about such matters as wealth and income distribution, sex equality and trade union power. Such developments have sometimes appeared to justify actions which were contrary to the general purpose of increasing farm output or farm efficiency.

3.3 IMPLICATIONS OF JOINING THE COMMUNITY FOR UK AGRICULTURAL POLICY OBJECTIVES

Membership of the Community changes the framework within which the objectives of agricultural policy have to be pursued. Within the Community the UK has access to food produced or imported into the whole of the area. In an important sense this increases the security of UK food supplies. From producing only 55 per cent of food requirements within the home market, the UK now has access to a market within which almost 90 per cent of needs can be met internally. Against this gain, which proved to be of some significance when food prices were at their highest in 1974 and 1975, must be set some new constraints. Within the framework of the CAP as it now exists, the separation of ‘Agricultural’ and ‘Food’ prices, traditional in UK policy, is not possible. As a result, a conflict between consumer interests and farmer interests is inevitable. In approaching the question of price levels within the Community the government has to determine and reveal its priorities more clearly than ever before. The traditional consumer orientation of food policy in the UK and the electoral importance of food prices ensure that, within the Community, UK governments
are likely to press for lower prices. However, if agreement is to be reached, it must involve some concessions towards the farmer interests represented by other governments.

The operation of the CAP requires the UK to pay, in normal circumstances, a higher price for its imports of food than would otherwise be necessary. This is ensured by the imposition of variable import levies and customs duties which ensure that goods from the rest of the world cannot undercut Community production at the price level fixed by the Council of Ministers. The effect is damaging to the UK. The extra cost of imports represents a real loss of wealth and makes even more difficult the task of securing a satisfactory balance of payments. Against this damage must be set the benefits that when world prices reach very high levels, the CAP may actually cover the cost of imports. This is a valuable characteristic especially if price stability forms an important feature of counter inflationary policy. However, in fixing its objectives in relation to the CAP, the UK must weigh each gain against the losses involved when world prices fall. In general, UK interests are likely to favour an internal price level which is not greatly in excess of the long run level of world prices.

The implications of the CAP extend into the mix as well as the level of farm production in the UK. For more important commodities, the CAP determines internal prices and thus price relativities. Farmers must, in the long-term, adjust their production pattern to these pressures. In general, price levels are higher than those formerly prevailing in the UK, so that a larger output might be expected. However, the relative price of agricultural outputs tends to be more favourable to arable farming than in the past, so there might be some shift towards this form of production. It must be an objective of UK policy within the Community to establish a price pattern which accords well with the natural resource endowment of Britain. Thus more emphasis might be sought on grass-based livestock and less on crops little grown in the UK.

In the longer run, however, the effect of the Community on the UK economy as a whole may be of greater significance for agriculture than the CAP itself. If it encourages industrial growth then the value of resources in non-agricultural uses will increase and despite higher prices for farm produce it will be sensible to allow home agriculture to contract. If the economy as a whole stagnates then a larger agricultural output may be needed and the appropriate flow of resources to agriculture increase.
4 The future cost of food in the UK

4.1 WHAT IS THE ‘COST’ OF FOOD?
The cost of food is, in essence, the amount of other things we have to forego. Thus, if we assume import prices and domestic agricultural productivity to be constant, an improvement in the productivity of UK resources in other economic sectors will make food production at home increasingly costly. Similarly, an improvement in agricultural technology (given constant import prices and productivity in other sectors), would decrease the real cost of domestic farm output and justify substitution for imports. Allowing changes in import prices introduces fresh possibilities; if food import prices (measured in terms of the quantity of exports needed for a given volume of imports) rise and the productivity of home agriculture is constant, a switch of resources towards domestic supplies will minimise the effect on food costs. Should import prices of food fall, a reduction in home production is indicated. The import price of other non-food goods is also important. If the external price of other goods falls in relation to food prices, home consumers will be able to acquire these for a ‘smaller bundle of other goods’ than before. It will then pay to divert home resources towards agriculture. Conversely, an increase in the external price of other goods, compared with food, will make it attractive to shift resources from agriculture to other sectors of the economy.

Changes in the exchange rates must also be taken into account. Devaluation raises the price of external goods compared with internal goods in the country whose currency has become less valuable. Such a change should discourage consumption of goods which have a high import content or which may readily be exported and should encourage production of import substitutes and export of products previously produced for home consumption. Thus devaluation redresses a trade imbalance because it makes imports dearer in the sense that
consumers have to forego more other goods for a given quantity of imported products. However, if all domestic prices are rising then this real shift in favour of home production will be diminished and the adjustments in production and consumption needed to restore equilibrium will be frustrated. In such a situation devaluation would simply change money prices and not result in any shift in the real cost of food to consumers.

Similarly, inflation can itself confuse appreciation of the cost of food. Rising prices normally indicate a need to divert resources towards a sector. When all prices rise, however, no resource movement may be needed. Indeed, resource movements which occur because of institutional uneveness in the rate of price increase in various sectors may prove perverse, with initial movements subsequently reversed as the sectors which adjust more slowly catch up.

Further problems surrounding the concept of the ‘cost’ of agricultural output result from the existence of unemployment. The framework of ideas in which expansion is thought to be possible only by shifting resources from one sector to another implicitly assumes full employment. It is tempting to conclude that anything which can be produced from idle resources adds to national output at no real cost to the economy. If, for example, the agricultural or food industries could utilise resources not otherwise employed, their contribution to output might be regarded as having zero cost. Such extra production would reduce food costs compared with the cost of imports for which some payment has to be made. The calculation is far more complicated than this approach suggests. There are problems both of an organisational and economic kind.

It is not possible to give employment to one resource without involving others. Although the cost of a resource newly employed may be zero, the other costs associated with its employment will be positive and may be substantial. For example, if, to provide employment in one sector, resources have to moved from other parts of the economy in which the marginal product is positive, the output of the economy as a whole might be reduced and employment in the latter sectors would fall. The true cost of output in the sector absorbing ‘idle’ resources would be substantial. No general answer can be given concerning such ‘other costs’ of providing employment in the agricultural or food industries but it would be false to assume that they are negligible. Provision of work may involve housing and transport costs borne by the community as a whole. On the farm, additional man-power is likely to require more capital such as machines, buildings and stock, all of which require resources which will usually have values in other uses. The implication is that although the existence of unemployment may create opportunities for extra production the institutional problems of doing this are severe, the costs involved unlikely to be small and there is no particular reason for thinking that agriculture is the sector to expand.
In organisational terms, the problems are no less severe. Since social security ensures that unemployed people receive at least a minimal income, the price at which labour can be hired is unlikely to fall below this floor level. However, even if extra manpower makes a positive contribution to output, this may not be profitable when due allowance has been made for the other resources involved in its employment. As a result, employers cannot afford to offer work. The practical implications of overcoming this problem by subsidising employment must not be ignored. Trade unions naturally fear that such subsidies depress wages and reduce employment among their members currently in jobs. Treasury ministers are likely to question the costs of such subsidies to the public. More difficulties might arise in selecting the forms of employment for support, since the marginal product of labour is unlikely to be the same in all the available industries.

The implication of this discussion is that although the existence of unemployed resources may suggest that extra food could be produced at low cost, this is not necessarily true. Paradoxically, the market itself may provide a more constructive response. Unemployed men able to cultivate their own allotments or gardens by hand may provide an increment to food production at very modest cost. Of course, such activities do not satisfactorily overcome the social problems or economic wastage associated with large-scale unemployment. Such problems will, however, have to be tackled by other policies.

Thus the cost at which food is available to UK purchasers depends upon the productivity of resources within the UK economy. If this productivity improves, the proportion of our total resources we must sacrifice to acquire a given quantum of food will decrease. Whether we find it cheaper to buy the food we need from home producers or from outside (i.e. determining the most appropriate size of the UK agricultural industry) will depend upon relative changes in domestic productivity and relative shifts in the prices of imports and exports. If productivity at home is rising more rapidly in agriculture than in other sectors, an expansion of farming is indicated. If world food prices rise relative to non-food prices, this too will justify increased home production.

4.2 THE PRODUCTIVITY OF RESOURCES IN AGRICULTURE AND OTHER SECTORS

The central issue of the size of UK agriculture cannot then be resolved by examination of agriculture alone, nor can it be determined in the light of present or past performance. Policy must be related to the future pattern of agricultural and industrial productivity, and to future terms of trade for UK exports in relation to imported food prices. None of these can be foreseen with certainty. We can, at best, make only very tentative estimates. However, since it is necessary
to make judgements it is helpful to examine recent experience.

Comparative measurements of productivity present many problems. The resources used in various industries are not strictly comparable. Labour varies in its skills. In some jobs there are important non-monetary rewards. There can be no sensible pre-supposition that workers in one industry can be deployed in another at the average level of productivity of the industry to which they move. Measurements of capital productivity are no less problematical. The valuation of capital assets involves the hydra-headed issues of capital consumption, obsolescence and inflation. Also, the capital equipment of each industry tends to be fairly specific to its activities and of little value elsewhere. What is needed, in attempting to assess the right direction in which to move resources, is some idea of that labour or capital which is mobile and can be deployed in various sectors.

Table 4.1, calculated by C J Doyle, of the Centre for Agricultural Strategy, sets out the value of output per pound (sterling) of inputs of primary resources. The Table is based on the input-output analysis of the UK economy published by the Central Statistical Office. An explanation of its construction is given in the Appendix. The Table shows the amount of final output in each industry resulting from the application of one pound sterling’s worth of direct and indirect resources. It implies that if resources moved from industries which had low scores in the final column to those with higher scores, the output of the economy as a whole would increase. Thus, on the basis of existing performance, the wealth of the country could be increased by a shift between sectors of labour, capital or land.

Table 4.1 shows the level of productivity of all resources in the UK economy in 1972. Tables 4.2 and 4.3 examine some of the available information about changes in output per unit of labour and per unit of capital since 1970. Relative rates of change in resource productivity are not necessarily a satisfactory guide as to the absolute levels of productivity in particular sectors. On the other hand, if output per unit of a resource has been rising relatively rapidly in one industry compared with others, this provides a basis for examining the possibility that the industry concerned may have a strong claim for extra resources. Much depends on whether improved productivity is the result of greater efficiency in the use of a constant set of resources, or of pruning redundant resources whilst maintaining a constant or even falling level of output. In the first case, the grounds for expansion seem good. In the second case, extra resources might only be absorbed if productivity levels were to fall.

Tables 4.2 and 4.3 explore changes in output per head and in the size of the labour force in selected industries. All the industries have shed labour. The data for 1970 for agriculture may under-estimate the change. Most industries have
<table>
<thead>
<tr>
<th>Sector</th>
<th>1 Gross output £m</th>
<th>2 Intermediate output £m</th>
<th>3 Primary resource inputs £m</th>
<th>4* Final output per £ of input</th>
<th>5 Depreciation £m</th>
<th>6† Net factor productivity</th>
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</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>2743.1</td>
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<td>1.17</td>
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<td>1.06</td>
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<td>Forestry &amp; fishing</td>
<td>151.8</td>
<td>54.0</td>
<td>106.6</td>
<td>0.92</td>
<td>12.0</td>
<td>0.81</td>
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<tr>
<td>Mining</td>
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<td>307.7</td>
<td>0.83</td>
<td>29.3</td>
<td>0.73</td>
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<td>Food, drink &amp; tobacco</td>
<td>6774.6</td>
<td>823.8</td>
<td>4523.5</td>
<td>1.32</td>
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<td>1.24</td>
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<td>Chemicals, oil refining</td>
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<td>2461.0</td>
<td>2792.5</td>
<td>0.84</td>
<td>187.7</td>
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<td>Iron &amp; steel</td>
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<td>1831.2</td>
<td>442.4</td>
<td>0.91</td>
<td>46.3</td>
<td>0.80</td>
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<td>Engineering</td>
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<td>5496.4</td>
<td>11170.3</td>
<td>0.97</td>
<td>607.0</td>
<td>0.92</td>
</tr>
<tr>
<td>Bricks &amp; cement</td>
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<td>1244.7</td>
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<td>0.97</td>
</tr>
<tr>
<td>Timber &amp; furniture</td>
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<td>723.0</td>
<td>396.8</td>
<td>1.52</td>
<td>15.7</td>
<td>1.48</td>
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<tr>
<td>Paper &amp; printing</td>
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<td>1814.1</td>
<td>810.9</td>
<td>1.23</td>
<td>32.3</td>
<td>1.19</td>
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<tr>
<td>Textiles, leather &amp; clothing</td>
<td>3674.2</td>
<td>835.7</td>
<td>2691.8</td>
<td>1.05</td>
<td>110.4</td>
<td>1.01</td>
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<td>Construction</td>
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<td>5048.2</td>
<td>1.33</td>
<td>302.2</td>
<td>1.27</td>
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<tr>
<td>Gas, water, electricity</td>
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<td>1251.9</td>
<td>3004.4</td>
<td>0.65</td>
<td>559.0</td>
<td>0.46</td>
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<td>Transport</td>
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<td>2556.8</td>
<td>3073.5</td>
<td>1.01</td>
<td>397.8</td>
<td>0.88</td>
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<td>905.9</td>
<td>1949.7</td>
<td>0.47</td>
<td>203.8</td>
<td>0.37</td>
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<tr>
<td>Distributive trades</td>
<td>8302.3</td>
<td>1670.1</td>
<td>7072.5</td>
<td>0.94</td>
<td>429.7</td>
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<tr>
<td>Misc. services</td>
<td>12632.3</td>
<td>3736.9</td>
<td>8592.5</td>
<td>1.04</td>
<td>493.3</td>
<td>0.98</td>
</tr>
</tbody>
</table>

Notes: Column 4* = (Column 1 - Column 2) / Column 3  
Column 6† = (Column 1 - Column 2 - Column 5) / Column 3

Sources: See Appendix for details of sources and method of construction.
### Table 4.2
LABOUR FORCE AND OUTPUT PER HEAD IN SELECTED INDUSTRIES, 1970/71 — 1976/77

<table>
<thead>
<tr>
<th></th>
<th>Agriculture</th>
<th>Manufacturing industries</th>
<th>Mining quarrying</th>
<th>Metal manufacturing</th>
<th>Mechanical instrument electrical</th>
<th>Vehicles</th>
<th>Textiles</th>
<th>Gas</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>a b</td>
<td>a b</td>
<td>a b</td>
<td>a b</td>
<td>a b</td>
<td>a b</td>
<td>a b</td>
<td>a b</td>
</tr>
<tr>
<td>1970/1</td>
<td>105 697</td>
<td>100 100</td>
<td>100 100</td>
<td>100 100</td>
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<td>100 100</td>
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<td>100 100</td>
</tr>
<tr>
<td>1971/2</td>
<td>115 716</td>
<td>103 97</td>
<td>103 97</td>
<td>97 94</td>
<td>104 97</td>
<td>103 97</td>
<td>109 93</td>
<td>108 96</td>
</tr>
<tr>
<td>1972/3</td>
<td>118 709</td>
<td>109 94</td>
<td>91 93</td>
<td>103 87</td>
<td>109 92</td>
<td>110 94</td>
<td>116 89</td>
<td>112 91</td>
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<tr>
<td>1973/4</td>
<td>126 704</td>
<td>118 94</td>
<td>104 88</td>
<td>114 87</td>
<td>120 93</td>
<td>113 95</td>
<td>123 88</td>
<td>134 88</td>
</tr>
<tr>
<td>1974/5</td>
<td>133 678</td>
<td>115 94</td>
<td>92 85</td>
<td>107 86</td>
<td>117 94</td>
<td>108 94</td>
<td>116 86</td>
<td>134 89</td>
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<tr>
<td>1975/6</td>
<td>123 662</td>
<td>113 90</td>
<td>100 86</td>
<td>93 84</td>
<td>117 90</td>
<td>106 91</td>
<td>119 78</td>
<td>134 90</td>
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<tr>
<td>1976/7</td>
<td>114 664</td>
<td></td>
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</tbody>
</table>

Notes:  
- a — Output per head  
- b — Labour force. Data for Agriculture in 000 workers. Other industries given as index of 1970.

All commercially significant holdings and agricultural contractors June/May years

Sources:  
- Agricultural data: Annual Review of Agriculture 1977  
# Table 4.3

**CHANGES IN LABOUR PRODUCTIVITY AND EMPLOYMENT, 1970-1975 UK**

**PERCENTAGE CHANGE RELATIVE TO 1970**

<table>
<thead>
<tr>
<th></th>
<th>Agriculture</th>
<th>Manufacturing industry</th>
<th>Mining &amp; quarrying</th>
<th>Metal manufacture</th>
<th>Vehicles</th>
<th>Textiles</th>
<th>Gas, electricity, &amp; water</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>a  b*</td>
<td>a  b</td>
<td>a  b</td>
<td>a  b</td>
<td>a  b</td>
<td>a  b</td>
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</tr>
<tr>
<td>1971</td>
<td>+9.5  +2.7</td>
<td>+3  --3</td>
<td>+3  --3</td>
<td>--3  --6</td>
<td>+3  --3</td>
<td>+9  --7</td>
<td>+8  --4</td>
</tr>
<tr>
<td>1972</td>
<td>+12.4  +1.7</td>
<td>+9  --6</td>
<td>--9  --7</td>
<td>+5  --13</td>
<td>+10  --6</td>
<td>+16  --11</td>
<td>+12  --9</td>
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<td>1973</td>
<td>+20.0  +1.0</td>
<td>+18  --6</td>
<td>+4  --12</td>
<td>+14  --13</td>
<td>+13  --5</td>
<td>+23  --12</td>
<td>+34  --12</td>
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<tr>
<td>1974</td>
<td>+26.6  --1.4</td>
<td>+15  --6</td>
<td>--8  --15</td>
<td>+7  --14</td>
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<td>1975</td>
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<td>0  --14</td>
<td>--7  --16</td>
<td>+6  --9</td>
<td>+19  --22</td>
<td>+34  --10</td>
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</tbody>
</table>

**Notes:**

- a — percentage change in output per head compared with 1970
- b — percentage change in labour force compared with 1970

* The number of people engaged in agriculture was probably understated in 1970 as a result of omissions in completing the data relating to self-employed. As a result, the subsequent decline in the agricultural labour force may be under-estimated.
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<tr>
<th></th>
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<tr>
<td></td>
<td>£m</td>
<td>£m</td>
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<tr>
<td>Capital Stock</td>
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<tr>
<td>Agriculture forestry &amp; fishing</td>
<td>3300</td>
<td>3700</td>
<td>4100</td>
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<td></td>
<td>300</td>
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<td>300</td>
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<td>2600</td>
<td>2800</td>
</tr>
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<td></td>
<td>731</td>
<td>800</td>
<td>933</td>
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<td>Manufacturing industry</td>
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<td>50900</td>
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<td></td>
<td>14120</td>
<td>15428</td>
<td>16974</td>
</tr>
<tr>
<td>Construction</td>
<td>2300</td>
<td>2600</td>
<td>2900</td>
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<td></td>
<td>2855</td>
<td>3176</td>
<td>3861</td>
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<tr>
<td>Gas, electricity &amp; water</td>
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<td>19400</td>
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Source: Annual Abstract of Statistics
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(a) Agriculture forestry & fishing
Mining & quarrying
Manufacturing industry
Construction
Gas, electricity & water
Transport
Communications
Distributive trades

(b) Agriculture forestry & fishing
Mining & quarrying
Manufacturing industry
Construction
Gas, electricity & water
Transport
Communications
Distributive trades
shown a perceptible increase in output per head although this has been erratic with figures for 1975 often being less good than for earlier years.

Table 4.4 sets out information about the capital stock of various industries and their respective contribution to Gross Domestic Product (GDP) from 1970 to 1975. It demonstrates that the capital required per unit of output varies greatly between industries e.g. construction requires relatively little whilst gas, electricity and water demand a great deal. Such absolute differences are of very little significance in the context of this discussion. In most cases there is no possibility to move capital from one industry to another except in the very long term.

Even were this done, for instance by requiring manufacturing industry to invest in its own electrical generating plant, substantial economic benefits do not necessarily accrue. The capital/output ratio of manufacturing industry would appear less satisfactory and it is possible — if the move meant a loss of scale economies in the electrical generating business — that capital/output ratios would deteriorate there too. The assumption that investment in one sector can be isolated from others does not stand close examination. A larger manufacturing investment will also imply investment in power, transport and distribution. Thus, no certain advantage can be expected from attempting to concentrate investment where capital/output ratios of the sort shown in Table 4.4 appear more favourable. It would, however, be helpful if new capital were directed towards those firms within any particular industry which were able to use capital more productively. Classical economic theory sees this as something achieved by the process of competition. In the ‘real’ world of mixed economies such competition works, if at all, in a highly attenuated form. The result is that governments become increasingly involved in the minutiae of distribution of capital through a complex set of instruments including subsidies, taxes and tax reliefs, depreciation and public investment activities.

Whether agricultural productivity is improving or deteriorating relative to other sectors may be indicated by changes in the capital/output ratio over time. In an economy which is becoming richer, more capital is available. Unless technology advances at a suitably rapid pace, added investment will face diminishing marginal returns. Such an investment may still be justified as labour costs rise. The increase in capital stock shown in Table 4.4 is exaggerated by the effects of inflation, but even so a substantial ‘real’ increase in capital did occur between 1970 and 1975. The second part (b) of Table 4.4 shows how the capital/output ratio has changed compared with 1970. Negative percentage changes mean an improvement, positive ones that more capital was needed per unit of output. The picture is by no means uniform. Industries such as gas, electricity and water showed an improvement to 1972 and then a modest deterioration. In manufacturing there was a slow increase to 1973 in the capital
needed per unit of output and then a much more rapid increase. Agriculture at first improved and then suffered a sharp set-back, although by 1975 its relative change since 1970 still compared favourably with mining and quarrying.

Table 4.4 (a) and (b) measure changes in capital stock and contributions to GDP in terms of current prices. Thus any change in capital stock per £ of GDP includes both the effect of physical changes in input/output ratios and of changes in terms of price. Both are important since it is the joint effect of these variables which has to be taken into account in determining resource use. However, each aspect is separately of interest. Improvements in the physical efficiency of resource use may represent permanent gains in so far as the better methods can be continued into the future. Improvements which come about because of price increases may be more ephemeral. Changed market conditions, either as a result of autonomous market processes or because of changes in government policies, may reverse current tendencies. It is thus important to consider the extent to which prevailing price relationships may be changed. Those sectors whose prices are likely to rise in relation to others can make out a strong case for an increased share of national resources.

The information from these tables has some bearing on the relative productivity of resources in agriculture and other sectors. It does not provide any conclusive guide for agricultural policy but forms an important background to the formulation of policy decisions. Table 4.1 suggests that the ratio of final output to inputs of primary resources is relatively favourable so far as agriculture is concerned. The industry appears to be substantially better than the UK average in terms of resource productivity.

Tables 4.2 and 4.3 show that the rate of decline in the agricultural labour force has, in recent years, been relatively modest compared to other industries such as metal manufacture or textiles. Up to 1974, agricultural output per head compared well with other sectors. Since then productivity appears to have fallen sharply. In the most recent years output has been affected by unusually difficult weather conditions and by prices which have been unfavourable to farming; however these downward movements in labour productivity might be rapidly reversed if climatic and market conditions improve. The gradual improvement in performance between 1970 and 1974 may thus provide a firmer guide for policy than more recent figures. On the other hand, an attempt to accelerate the increase in farm output achieved in earlier years might well result in declining output per man. Recent technological changes have tended to emphasise the value of large farm units, so that diminishing returns to extra labour might be expected. Further, additional labour is likely to be less skilled, at least initially, than the established agricultural labour force.

On the basis of the available information, other industries too might claim that
expansion is the key to better labour productivity. However, the claims of agriculture are strong, both in terms of recovery from the downturn of 1975 and 1976 and in the longer term trend of productivity. In particular, if the price of agricultural outputs, in real terms, is likely to be higher than in the past, it seems likely that a moderate rate of expansion in production would be consistent with high levels of labour productivity.

Table 4.4 shows that the productivity of capital, in so far as it is reflected by the ratio of capital stock to output, is sensitive to the level of economic activity as a whole. Agriculture cannot be separated from such general tendencies although poor winter conditions in 1975 may help to explain an apparent sudden deterioration in the productivity of capital. Figures for 1976 are likely to show a similar trend. Assuming that weather conditions return to past patterns it seems probable that the capital/output ratio would revert to something nearer that of the early seventies. If farm prices were to rise, in real terms, relative to that period, the capital/output ratio would appear even more favourable to farming. Since this is one possible implication of the CAP it might form the basis of a case for higher investment in agriculture.

This review of past trends in labour and capital use is only helpful if it can be assumed to give some guidance about future trends in relative productivity among differing sectors of the economy. If expansion is to go beyond recovery to past levels of output, two sorts of criteria have to be satisfied: first, that there exist technical opportunities for expansion at productivity rates close to those of the recent past. Second, that there is a willingness to undertake the process of expansion amongst the owners of capital. The data, whilst by no means conclusive, are on the whole, reassuring so far as technical opportunities are concerned. The relative quantities of capital each industry needs per unit GDP seem to be remarkably stable. Beyond the recovery phase the prospect cannot be predicted with any confidence from these data. In agriculture, both labour and capital productivity have changed at rates which compare not unfavourably with those of manufacturing industry. This suggests that agriculture might plausibly claim a relative increase in the share of the nation’s resources. Such a move would be consistent with a policy of securing food at the lowest possible cost.

The second requirement, confidence to expand, is at least as problematic. Prevailing rates of income and capital taxes, combined with inflation, make it difficult for the proprietors of small businesses to retain the real value of their assets or to pass their business intact to the next generation. In larger businesses, current political attitudes are thought to be hostile to the owners of capital who, with the better paid workers (including managers) believe they have suffered a very sharp drop in real income in recent years. It is argued that enthusiasm for expansion may be sapped by control of prices and dividends, by legislation which
encourages closed shops and by plans to compel companies to have union representation on boards. Such attitudes may be unjustified but, if they do exist, manufacturing and distributive enterprises are unlikely to embark on a policy of expansion. Within agriculture the disappointment and frustration voiced by farmers’ leaders (partly as a result of the non-implementation of CAP price levels in ‘real’ terms in the UK) may contribute to a reluctance to expand.

4.3 THE INTERNATIONAL DIMENSION IN FOOD COSTS
Apart from their claim upon resources because of the comparatively favourable trend in past capital and labour utilisation, UK farmers could argue a case for expansion if the terms of trade for food imports, (compared with UK exports) were to deteriorate as a result of external changes.

Membership of the Community required that the UK adopt the CAP. It was expected that, after a period of transition negotiated in the Treaty of Accession, full CAP price levels would prevail in the UK. Import levies would ensure that goods from the rest of the world would cost at least as much as those from Community producers. The result was expected to be a sharp increase in UK agricultural import prices compared with changes in the price at which UK manufactured exports could be sold. In such a situation it seemed likely that increases in the proportion of domestic food produced would be appropriate.

Two events invalidated this calculation. Sharp rises in world food prices in 1973 and 1974 made it cheaper to buy some products from the Community at CAP prices rather than from traditional sources. Other raw material prices rose too, but, except for oil, the rate of price increase was more severe for food and represented a deterioration in the terms of trade of food importers. Some saw, in these events, the beginning of a period of world scarcity; growing anxiety about food supplies led to the World Food Conference in 1974. Others saw the problem, at least for developed countries, as one of price instability rather than absolute and continuous shortage. Plans to create internationally co-ordinated stocks were discussed and in all countries greater emphasis was placed on the need to expand output.

For the Community, and for the UK in particular, higher world prices seemed to justify the CAP and to commend its tendency to stimulate output. However, the UK’s position was gravely affected by the weakness of sterling. Had the full unit of account value of CAP prices been enforced in the UK then the progressive decline in the market value of sterling would have caused a further substantial increase in food prices in the UK. The UK government was enabled to resist this by refusing to reduce the value of the representative exchange rate used to calculate official agricultural prices (the so-called green pound) at the same rate as the market value of sterling declined. The result was the introduction of MCA’s
which subsidised sales from non-devaluing members of the UK and taxed agricultural goods exported from the UK to other members.

For the UK exchequer and consumer such MCA's were welcome. They kept food prices down and represented a net gain to the UK balance of payments, since the subsidy on imports was paid from the European Agricultural Guidance and Guarantee Fund (FEOGA). For UK farmers the MCA's were most unwelcome. They kept down agricultural selling prices while the costs of goods farmers purchased from other sectors rose with the general rate of inflation. Livestock producers, however, were compensated to some extent by the fact that while output prices were constrained feed bills were proportionately subsidised. Nonetheless, in general, the operation of MCA's depressed farming profitability and in turn output. The precise degree to which the decline in output and real income can be attributed to MCA's rather than to other factors (such as drought) is not clear, but lagging sterling prices for food at a time of rapid inflation must place severe pressure on the profit margins of farm businesses.

In 1974 and 1975 the UK government, under strong pressure from other Community countries as well as from its own farmers, partially devalued the green pound. However, in late 1976, in the face of a much greater deterioration in the market value of sterling, the UK refused to reduce the value of the green pound. The implication may be that despite a rise in world prices and a price level in the CAP much higher than in the UK before entry, home agriculture will produce less rather than more.

The merit of relying on MCA's to keep down food prices in the UK requires further analysis. First, it is necessary to examine the durability of these payments and second, to consider their role within the national economy.

The permanence of MCA's depends upon the ability of the UK to resist pressures to devalue the green pound and upon the continued weakness of sterling. An obdurate refusal to devalue the green pound may involve a loss of good-will and co-operation from other Community members. At least, it is likely to reduce the opportunity to negotiate other deals which reflect UK interests within the Community. The scope for pressure by other members may be considerable, especially if the UK relies on other governments to support sterling or to defend UK interests in international disputes. Paradoxically, a strong UK economy could make it even more difficult to retain MCA's. To hold the rate of exchange below its equilibrium rate would prevent a rise in the standard of living of the population and would probably attract speculative investment which could both add to inflationary pressures and expose the economy to instability should a sudden change in sentiment occur. In the short run, the government might hold the exchange rate below its equilibrium level by selling sterling but if the gap
between the prevailing rate and the current market value was large, such a policy might be hard to maintain for long without encountering severe inflationary pressure.

If MCA's cannot be retained in the long term then the real cost of agricultural imports will be the CAP determined price prevailing in the Community. Since this is now considerably higher than the prices paid to UK farmers, some increase in farm output would be needed.

Another reason for questioning the UK's reliance on MCA's is that it is possible that the MCA's themselves may not have unequivocal benefits in the fight against inflation. In a simple form the relationship between MCA's and inflation might be outlined as follows:

(i) Sterling is weak abroad because total sterling expenditures for imports and investment overseas tend to exceed the total sterling assets derived from exports or foreign investment in the UK. Thus overseas holders of sterling find that they are holding more than they need and are prepared to accept fewer units of other currencies in exchange for the pound. This means that in pounds sterling UK imports cost more.

(ii) At home the tendency for aggregate calls on resources for consumption or investment to exceed what is produced or can be borrowed from other countries forces all prices up. This exacerbates the external problem because imports will become more competitive and exports less so.

(iii) A devaluation or downward float of the currency might be expected to rectify the problem by raising the sterling prices of foreign goods. This could stimulate both exports and import substitution and (provided that money incomes do not rise proportionately) the domestic overall ability of the population to consume resources. MCA's however imply that the agricultural element in the economy does not take part in this process. In fact, since prices to consumers remain unchanged and farm output is likely to fall, the volume of food imports (assuming constant demand) would tend to rise. Thus the necessary fall in other imports to restore external equilibrium is increased. To avoid greater depreciation of the currency, internal taxes would have to be raised to offset the greater purchasing power left in consumers' hands. However, increasing indirect taxes would lead directly to higher prices, whilst greater taxes on incomes might have a generally deflationary effect, which would tend to reduce output and generate unemployment.

(iv) This essentially static, once and for all view is insufficient. Many people, including the authors of incomes policies, believe that there is a cost push element in inflation—that when costs rise the institutional structure of wage and price determination will pass the increases on to consumers as higher prices. However, if the argument of paragraph (iii) is accepted, then the lower food prices secured by
MCA's, might have to be set against higher raw material and final product prices because of a greater degree of devaluation, higher taxes or a lower level of national output. This in itself is likely to prove inflationary. Within the UK, food imports account for some 20 per cent of total imports, and food consumption for 25 per cent of consumer expenditure. A 10 per cent saving of foreign exchange cost of food would then be offset if the cost of other imports rose by 2.0 per cent because of a lower exchange rate. Similarly, a 10 per cent reduction in overall food prices would be overtaken if the policy resulted in an increase in inflation of 2.5 per cent or more. Given the difficulty of raising taxes to offset the effect of MCA's on consumer purchasing power, it seems possible that MCA's may depress the exchange rates perceptibly. If the cost push analysis of inflation is accepted, it is possible that a lower exchange rate might mean that MCA's could actually lead to higher rates of inflation than if food prices had been allowed to rise following the initial devaluation.

(v) The underlying flaw in the conventional acceptance of MCA's is the failure to appreciate that the price increases which follow devaluation have a function of bringing consumption into line with the food and productive capacity of the economy. If the agricultural sector does not do this, and even adds to the problem by increasing the consumption of imported farm goods and decreasing home production, then bigger adjustments will have to take place in other sectors of the economy. Much depends on the supply response of farming to cuts in 'real' prices. In the short run this may be small and the gain from MCA's thereby appears very attractive. In the longer run, such an assumption does not seem safe. In an economy with a high level of unemployment there is little reason to assume that a loss of production in agriculture will be offset as resources move to higher value uses in other sectors. Thus while MCA's may ease political problems by keeping food prices down, and in themselves represent a credit item in the balance of payments, it is uncertain that their overall effect on inflation is beneficial.

4.4 SUMMARY
The future cost of food to the UK consumer is dependent upon the quantity of resources required to produce the exports to pay for the imports or, alternatively, the resources needed to produce food directly at home.

If foreign prices for manufactured goods fall because competing industries increase productivity more rapidly than UK firms, and if food prices remain constant, then food from abroad will cost more. If the rate of increase in the productivity of UK resources in agriculture exceeds the rate of increase in productivity in export industries it will require fewer resources to produce food at home rather than to buy it abroad. Finally, food import prices themselves may rise relative to UK export prices so making domestic sources of food relatively
cheaper. The CAP represents such an increase in food import prices, although the
effects of MCA's may offset this, at least temporarily.

The underlying reality is that the cost of food to the UK consumer depends
principally on the productivity of the exporting sectors of the UK economy as a
whole. If this compares favourably with other economies food will seem
reasonably priced in relation to spending power. If the economy does relatively
badly other countries will offer more 'other goods' for food and the UK consumer
will feel that prices are high.

In determining a rational approach to the central issue of food and agricultural
policy it is thus necessary to take into account the broader interaction of
decisions in relation to agricultural policy and those affecting the economy as a
whole.
5 UK agricultural policy within the community

5.1 THE NEED FOR REFORM OF THE CAP
The traditional concerns of UK agricultural policy remain valid. The provision of a reliable supply of suitable food at minimum cost is still the first objective. Implications for the welfare of rural populations, especially in the more difficult and remote farming regions, still have to be taken into account. The effects of agricultural policy on trade, the balance of payments and the general price level become of increased significance as the task of managing the economy seems most difficult. In discussing how these concerns are to be pursued in future, it is helpful to review the opportunities which arise within the CAP and then to discuss policy issues of a more domestic character.

Membership of the Community creates new options for policy makers. The fact that within the Community agricultural goods can move freely between member countries increases the security of food supplies for the UK. This is a major merit of the CAP which is most valuable when imported food supplies seem likely to be interrupted as a result of economic or military weakness. The effect of the boom in 1973/74 in world cereal and sugar prices on the UK economy was alleviated because the UK had access to Community supplies. In principle, the Community could also provide an opportunity to improve the efficiency with which resources are used in UK farming. If competitive forces were allowed to operate within the Community’s agriculture in an environment freed from extreme price fluctuations, then each country could concentrate its resources on those activities for which it was best suited. This need not increase the insecurity of food supplies, since shortfalls in one country could be made good by buying at stable prices from other Community members. Similarly a surplus could be exported to other members. This improvement in efficiency will, however, only be attainable if the internal price level is not greatly in excess of the price at
which adequate supplies could be bought from third countries.

The administered price level determined by the CAP is the key problem for the UK. If this is fixed above the amount at which satisfactory supplies can be bought from world markets, the price paid for security within the Nine may well be too high. Some premium for European supplies may be worth paying. The degree of security associated with traditional sources of supply (in the days when very close links were maintained with Commonwealth countries and when the UK was a major naval power) has probably decreased. However, it seems likely that current CAP prices are higher than is needed to ensure adequate food security. The rigidity of the administered price is itself a problem. If agricultural resources are to move to their most efficient uses within the Community, competition must be allowed to work. The maintenance of a price at which production chronically exceeds consumption prevents resources shifting to more efficient uses. This is a problem both for the UK agricultural industry and as regards the cost of food to UK consumers.

The discussion in the previous section suggests that MCA's may not provide a wholly satisfactory solution to this problem. Not only may their economic effects be less straightforward than at first appears, but their permanence cannot be assured. If they cease, the full unit of account price becomes the operative import price for the UK. Thus a reduction in the real level of CAP prices gives best hope for a durable gain both to UK consumers and to the UK balance of payments. A deal which traded MCA's against some method of determining prices so that they become more responsive to market supply and demand and to world price trends would for the UK represent a very considerable improvement in the CAP.

A partial solution might stem from devising a more flexible system of determining the value of the agricultural unit of account. At the moment this is fixed in relation to the currencies in the European monetary 'snake'. Since these are the stronger currencies the value of the ua tends to rise relative to weak currencies. For other purposes the Community uses a variety of definitions of the ua. If a 'basket' rate, such as that applied for the European Development Fund were employed, then, as weaker currencies reduced their exchange rates, the ua would tend to fall in terms of the stronger currencies. Not only would this imply a greater degree of symmetry in adjustment of MCA's in strong and weak economies but it would also make the apparent costs of MCA's accord more closely with reality. The present system exaggerates the element of subsidy on exports from the Community to the UK and minimises the subsidy element in German farm exports. If MCA's survived, a 'basket' unit of account would help to correct this whilst leaving internal prices unchanged.

The difficulties of promoting a reform which involves more flexible internal
prices are closely linked with the social and political problems faced by many governments regarding their rural areas. As long as the Community price level is fixed on a basis which implies that it must yield a satisfactory income to producers (even 'efficient producers'), any cuts in price will seem intolerable. Only if alternative policy instruments exist to ease the social hardships inescapable in re-deploying agricultural resources, will it be possible to determine prices in the light of the volume of production which consumers wish to buy or governments to hold as a security stock. Indeed, if prices are fixed with income criteria in mind, then, at a time of overall rising income per head of population, prices should be progressively increased. If prices are increased, production is likely to exceed consumption for all those products in which the Community is (entirely or nearly) self-sufficient. If prices are not increased, farmers’ incomes will lag behind those of others.

As a first step towards a more sensible pricing policy, it is necessary to create alternative arrangements to protect the living standards of vulnerable groups of farmers. In principle, a choice exists between doing this at a Community level or leaving it to member states to look after their own farmers. Several schemes for income support have been proposed. Amongst these, one of the most convincing is that of an Atlantic Institute Study Group (1970). Their report suggested step by step reduction in prices matched by compensatory payments to farmers in relation to their imputed loss of revenue. Such payments would be degressive so that larger farmers would receive less than proportional compensation.

Some interest was shown in such schemes but they were not applied, partly because of disagreements between member states and partly due to anxieties concerning their budget implications. Though such programmes were not acceptable at a Community level, they might be forced upon member governments in order to protect their own poorer farmers; this could happen if the real value of CAP prices fell because the Council of Ministers decided that nominal prices should not keep pace with inflation. Although this is a course of action which seems less than ‘Community’ in outlook, it may represent the most realistic approach towards more flexible Community prices. Institutional attitudes, social security systems and economic performance vary in each country. A uniform approach to the social problems of agriculture may be inappropriate and counter-productive.

Current high rates of inflation in the Community provide the UK with an opportunity to influence the CAP in this direction. Provided the policy is pursued with moderation and in a spirit which recognises the importance of strengthening the Community as well as safeguarding UK interests, considerable leverage can be exercised by a firm and continued resistance to price increases sufficient to offset inflation. It would have to be understood that member governments were free to
ease the hardships of their own farmers in the same way that unemployment and social security benefits are already provided for workers in other industries. Should it be decided to act at a Community level it might then be argued that all similar industrial adjustment problems (not just those of agriculture) should qualify for aid. Thus countries would contribute to or receive from such aid according to the severity of their problems, not just because they had a relatively large or small proportion of their resources in agriculture. Such a development would be a major step forward for the Community and would make goals such as economic union seem more feasible. In today’s circumstances it may be too much to expect Community solutions to large social problems. Even so, resistance to price increases which fully offset the effects of inflation may be justified.

In time the recognition of the inability of the CAP to offer a solution for poverty in agriculture would no doubt lead to a diversity of national solutions. At the same time it would become increasingly possible to relate prices fixed in the Community to the volume of production it was hoped to produce in the interests of the Community as a whole.

If the UK is to play a positive role in the development of the CAP there is a need for more than firm resistance to price increases. There are a number of specific ways in which the policy might be made to operate more satisfactorily both for member countries and for the Community as a whole. Three of these will be outlined briefly: a proposal to contain surpluses; a proposal to allow greater freedom to member states in fixing internal prices; and a proposal to promote the development of agriculture.

5.2 PROBLEMS OF SURPLUS
Surpluses, ie quantities produced within the Community in excess of consumption at the CAP-determined price level, have been a recurrent embarrassment to the Community. They create heavy demands on the budget as goods are bought at intervention or sold abroad with export restitutions. Repercussions, in the form of angry consumers who resent the subsidised sale of food to foreigners and third country agricultural exporters whose prices are depressed, add to the problems. Attempts to eliminate surpluses by such devices as slaughtering dairy cows, raising the relative price of another product (beef rather than milk or maize rather than wheat) have not proved successful. Cuts in nominal prices have been unacceptable to the Council of Ministers. Quotas which allocate the right to produce or to sell particular products have, with the exception of sugar beet, been rejected. The Commission fears that these would freeze the pattern of production. The UK in particular should resist attempts to introduce such quotas at a time when its agriculture has been operating under less favourable conditions than that of most Community countries.
Action to contain surpluses may become politically imperative if the resentment, expressed by consumers about sales of subsidised butter to the Russians, spreads to other aspects of the CAP. Export restitutions generate strong arguments. They are defended by the Commission who point to the budget cost of disposing of the surpluses by cutting prices within the Community. Since the products in surplus are characterised by inelastic demand, any attempt to increase the quantity placed on the home market would reduce the total revenue from internal sales. Farmers would, in effect, be under pressure to sell all their output into intervention, the authorities having to make up the gap between this price and that now prevailing in the market. It might be necessary to reduce prices very considerably to clear the market. So the charge on the budget (equivalent to all output times this subsidy) would be much greater than that now resulting from sales of much smaller quantities to third countries. Where possible, the policy is operated to dispose of quantities internally (when this can be done without a general price reduction, for instance through aid to pensioners). However, any attempt to dispose of all the surplus products in the Community would have intolerable effects on the cost of the CAP.

The opposite case relies on the argument that the goal of policy should be economic welfare and budget considerations must take second place. The Community's economy has already incurred the cost of producing the products in surplus. Export restitution means that part of the value of this output is lost to the Community. If it were sold internally prices would fall but the value of the product would be received by Community citizens. Financing such consumption would, if prices were to be maintained to farmers, depend upon transfers from tax-payers to Community producers. The precise incidence of such tax would be a matter for the taxing authorities to determine.

An approach which avoids many of these snags would be for the Community, at the time of price fixing, to state the maximum quantity it is prepared to buy into intervention or to finance through export restitutions at that price. Such a statement would imply a maximum total sum the Community would spend on support of each commodity. When goods were offered for intervention or export subsidies claimed, only part (say 60 per cent) of the full price would be paid. Final payment would be made at the end of the production year. If the total amount offered for intervention plus the cost of export restitutions exceeded the maximum sum stated by the Council, the price would be re-calculated, dividing the sum the Community was prepared to spend by the quantity finally offered. The final payment to those who sold into intervention would then bring the 60 per cent initial amount already received up to the newly calculated price level. This would be lower than that initially envisaged by the Council of Ministers. A practical example follows:
(i) The Council decides to fix an intervention price for wheat: 150 ua per tonne, for up to 6.66 million tonnes. Limit of CAP liability 1000 million ua

(ii) Offered for intervention purchase during year: 8 million tonnes. Initial payments to sellers to intervention 90 ua per tonne. Cost to FEOGA 720 million ua

(iii) A further 1 million tonnes is exported at a price of 100 million ua in world market qualifying for an export restitution of 50 ua per tonne. Cost to FEOGA 50 million ua

(iv) Total funds remaining for wheat support 230 million ua

Final payment to sellers into intervention:

\[
\frac{230 \text{ million}}{8 \text{ million}} = 28.75 \text{ ua per tonne}
\]

This is equivalent to a realised price of: 90 + 28.75 = 118.75 ua per tonne.

Such a scheme has several attractions. It places a ceiling on the budget liability of the Community. It means that there is a real deterrent to surplus production but does not expose farmers to violent downward movements in price which could occur in the absence of support if even minor surpluses reached the market. It restores to the market a positive role. If it is expected that production will exceed the amount for which the full intervention prices may be paid, it will pay traders to sell below intervention price as long as they judge the amount they receive to exceed the probable final intervention price. As a result, less is likely to be offered for intervention and the Community will benefit from lower prices.

Such a shift of policy would be consistent with UK interests. It would still be necessary to form a view on the proper intervention price and the appropriate quantity. However, if by mistake this were fixed too high, then there is at least a measure of automaticity in the downward adjustment which would follow.

5.3 COMMUNITY PRICES AND NATIONAL PRICES
Within the Community, great stress has been placed on the need to avoid distortions of competition. As a result, stringent rules have been made to prevent
monopolistic practices, and governments are required to abstain from subsidies on costs or prices to their own agricultural producers. In a competitive market a single price system would operate in the sense that variations in price which exceed the cost of transport from one region to another would be eliminated. By applying an administered price which is the same — except for differences related to the relative scarcity of the product in different areas — the CAP attempts to replicate this situation. There is a curious inversion of logic in this action. The price which prevails in a competitive market is important because it can move to equilibrate the offers of producers with the purchases of consumers. If the price is fixed, this balancing process cannot take place and there will be a tendency towards chronic surplus or shortage. In the surplus situation, the Community is made poorer because resources which should be in other sectors are trapped in agriculture. This loss is passed to the consumers in the form of higher prices for goods from other industries and in the form of either higher prices for food or of taxes to maintain the administered price to farmers. If prices are held so low as to lead to a deficit, the Community will also be made poorer because a larger supply of agricultural goods will be valued more highly than the products of some of the resources used in other sectors.

A competitive market does not always work smoothly. Particularly in agriculture, minor shortfalls in supply can lead to dramatic but temporary price increases. These ups and downs of fortune are likely to disrupt production and may lead to a misdirection of capital. It may therefore be judged that a measure of administered price stability improves the working of the industry as a whole. Nevertheless, if for any substantial period of time the price level departs from that which would lead to market equilibrium, considerable costs have to be set against any gains in the efficiency with which resources are used in the industry.

The system of price support used in the CAP tends to force prices above the level of the market equilibrium. This is understandable in view of the social and political significance of some prices to some governments. It is also understandable that such a policy imposes its own set of distortions which are unevenly distributed among member countries. This is especially unsatisfactory when the price level fixed for social purposes in one country is much higher than is appropriate for another country where the problems of farmers may be less than those of consumers. Thus a uniform price fixed by the political process inseparable from the CAP does not ensure freedom from distortion but creates its own distortions and imposes them on member countries.

This unsatisfactory outcome of the present arrangements for the CAP is further demonstrated in the very substantial aids which member governments continue to give their farmers in addition to those funds paid from FEOGA. The Commission reported that in 1975 about 66 per cent of total expenditure for
agriculture was financed from national sources. In the previous year the figure was 71 per cent (European Community, 1975). Most, if not all, of this expenditure will have been made in ways consistent with CAP rules. However, since the degree of support given varies between member countries, it is hard to believe that further distortion of competition between countries does not occur. The existence of MCA’s further impairs the working of the administered price level. It means that in devaluing countries agricultural production may be discouraged and agricultural imports encouraged. In revaluing countries the reverse applies. Thus production tends to be shifted towards the stronger economies and away from the weak ones.

One route away from such distortions and complexity would be to move towards a full economic and monetary union. Within such a structure many of the budget decisions now made by national governments would be determined at a Community level. Thus social and regional policy would have to be planned and financed through the Community. At the same time, monetary union would end MCA’s and eliminate the possibility of exchange rate shifts. To bring about such a change would imply great confidence in the Community and resolute willingness to make substantial inter-member budgetary transfers. The growing divergence of member country economies, which may soon be accentuated by the admission of Greece and Spain, makes it improbable that there will be sufficient unanimity of outlook to make such a monetary and economic union possible.

An alternative approach (Marsh, 1976) is to change the concept of the price which the Council of Ministers negotiates each year. Instead of attempting to fix a price appropriate for consumers and producers in each country, the Council would negotiate a trading price at which goods might change hands between member states. This trading price would represent a degree of preference for Community goods over third country produce. It would afford a secure outlet for agricultural exporting member countries and secure access to the Community market for importing member countries. The extent of the preference given to Community producers could take into account such issues as stability in supplies and prices, food aid commitments the Community wished to service as well as a protective element similar to that accorded to other industries through the Common External Tariff. The price-enforcing mechanism could continue to employ variable import levies, intervention purchase and export restitution. As a device to prevent continued production of surplus, a maximum guaranteed quantity system of the type suggested above could be used.

Having settled a trading price, member states would then be free to fix their own internal prices. They might, if they chose, use subsidies to separate consumer and producer prices or apply added levels and intervention to raise prices for both consumers and producers. Each member would, however, be required to
trade at the Community Trading Price, with the cost of bringing prices to the common level borne by the country concerned. A schematic example of transactions in a community using a common trading price but differing national prices is given below:

A. Notional price levels in ua per unit:

<table>
<thead>
<tr>
<th></th>
<th>German producer price</th>
<th>UK consumer price</th>
<th>Community trading price</th>
<th>World price</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>200</td>
<td>100</td>
<td>150</td>
<td>70</td>
</tr>
</tbody>
</table>

B. Effect of various transactions on consumers, producers, state budgets and the Community fund:

<table>
<thead>
<tr>
<th>Transactions</th>
<th>UK</th>
<th>Community fund</th>
<th>GERMANY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Producers 1</td>
<td>Govt. 1</td>
<td>Consumers 1</td>
</tr>
<tr>
<td>1. UK buys from Germany</td>
<td>-50</td>
<td>+50</td>
<td>+50</td>
</tr>
<tr>
<td>2. UK sells to Germany</td>
<td>+50</td>
<td>-50</td>
<td>+50</td>
</tr>
<tr>
<td>3. UK sells to non-Community country</td>
<td>+30</td>
<td>+50</td>
<td>-80</td>
</tr>
<tr>
<td>4. UK buys from non-Community country</td>
<td>-50</td>
<td>-30</td>
<td>+80</td>
</tr>
<tr>
<td>5. Germany sells to non-Community country</td>
<td>-80</td>
<td>+130</td>
<td>-50</td>
</tr>
<tr>
<td>6. Germany buys from non-Community country</td>
<td>+80</td>
<td>+50</td>
<td>-130</td>
</tr>
<tr>
<td>7. UK sells to Community Intervention</td>
<td>+50</td>
<td>-150*</td>
<td></td>
</tr>
<tr>
<td>8. Germany sells to Community Intervention</td>
<td>-150*</td>
<td>-50</td>
<td></td>
</tr>
<tr>
<td>9. EEC sells from Intervention to non-Community country</td>
<td></td>
<td>+70*</td>
<td></td>
</tr>
</tbody>
</table>

Notes: 1 + represents subsidy; — represents tax
2 + represents inflow; — represents outflow
3 + represents export restitution; — represents import levy

*These rows do not balance, there being a net outflow of funds from the Community which in practice will be financed by a levy on national governments not discussed here.
For the UK the merit of this proposal is that it clearly disassociates the social
from economic imperatives in setting an acceptable trading price for the
Community. There are many reasons why the UK should, in its own interest,
agree to a price level which is more stable and rather higher than current world
market prices. To do so would ensure preference for Community producers and
help to strengthen the Community. Within a stable environment, the UK would
have reliable access to adequate food supplies. In return for contributing to such
stability through prices usually above world levels, the UK would acquire
security, reasonable stability in internal food prices and a Community
environment in which agriculture could become more efficient. The Community
can exercise considerable influence in the world market both by adjusting its
own policies and by contributing to relief programmes and schemes for food aid.
By separating the CAP price level from internal social problems the Community
can gain greater flexibility in such negotiations and serve more adequately the
interests of all its members.

Where production within the Community chronically tends to exceed the
volume agreed by the Council of Ministers, a cut in trading price is likely to be
much more acceptable than a cut in prices for all producers. A government which
chooses to shield some or all of its producers could do so at its own expense. If
this resulted in continued surplus production, further cuts in the trading price
would increase the costs of supporting continued production to the member
government. The Community as a whole would not be required to accept a
totally open-ended commitment to support production at current prices.

These are important gains for the UK and need to be set against the obvious
and immediate loss of revenue from MCA’s. The loss must be taken into account
but, as already suggested, the real sacrifice to the UK economy may be less than
appears at first sight. For the whole Community the removal of MCA’s and the
possibility of effective steps to limit surpluses would be a major gain. One
immediate outcome would be a substantial release of funds which simply prop-up
unwanted production; these could be used in ways which promote a convergence
of interest within the Community.

5.4 THE DEVELOPMENT OF AGRICULTURE IN THE COMMUNITY
The increase in agricultural output in the past decade has tended to embarrass
the Community. Both in terms of its budgetary implications and in relation to
trade with other countries extra output has often had undesired repercussions.
This is paradoxical, since the greater flow of agricultural goods from the
Community’s farms should mean that the Community has become richer and can
enjoy an improved standard of life. The paradox arises because improved living
standards imply fundamental adjustments in the labour force, in farm size, in the
processing and distribution of food and much greater inter-dependence with other sectors. In this process traditional and cherished patterns of rural life are destroyed. This is, however, a transitional stage. Whilst it is important that in evolving patterns of industry and community due attention is given to both the physical and social environment, the new generation is unlikely to accept, unchanged, the life style of its forebears. It will need to work out new social structures capable of accommodating or controlling the technical and economic changes which have occurred and are now in process.

In the long-run, it is greatly in the Community’s interest and in the interest of the UK to achieve greater efficiency. Success would mean that a larger output could come from the same resources, if world and European conditions merited this, or that the same output could be produced with fewer inputs. Thus, it is of common benefit to promote, within the Community, policies which will add to efficiency.

At the moment, some CAP policies stimulate greater efficiency. Grants towards farm modernisation and improvement, aids to retirement and assistance in finding new jobs all contribute to the process. Beyond this, however, there rests a larger and more significant Community problem. Rapid improvement in agriculture requires an extensive re-deployment of labour into other industries. This condition applies equally in other sectors facing the problems of contracting manpower requirement. Satisfactory solutions cannot be found within a particular industry and certainly not within an industry already over-manned. Improvement in agricultural efficiency, although it may be encouraged by structural programmes, rests upon success in maintaining high levels of employment in the economy as a whole.

Progress in positive Community policies for employment investment and intra-Community mobility seems unlikely to be rapid. Present widespread problems of inflation and unemployment hinder any Community initiative which may shift burdens from one member country to another. Acceptance of such policies probably hinges more on political developments than on economic technicalities. However, the Community does have a modest regional fund which promotes developments in many of its less prosperous areas. Such activities have both a practical and a demonstration effect. Those who are visibly benefiting from the Community are more likely to be willing to contribute towards schemes in other areas than those who associate the Community with an alien bureaucracy whose main function is to keep up food prices or to depress farm living standards.

The release of Community funds from price support would create an opportunity to increase the scale of such activities. Some 70 per cent of all budget expenditure has gone to maintaining price levels. If more of this money were diverted to schemes which create job opportunities in depressed rural areas,
there might be much greater tolerance of the CAP and a positive response in terms of improved agricultural efficiency. It would be misleading to exaggerate the benefits from such schemes. Much more depends on the general economic environment which is not especially propitious for an increase in agricultural efficiency at the moment.

The UK should be generous in providing funds for regional assistance. Only a modest share of such expenditure would be received by the UK; nevertheless, provided that price levels were flexible, the country would benefit by improvements which occur elsewhere in the Community. Benefits include not only a less costly long-term supply of food but also progress towards a Community in which interests tend to converge rather than to compete. One of the UK’s greatest interests is that the Community to which it belongs should be strong and prosperous. UK prospects within such a Community are likely to be much better than in a bitter, divided and frustrating alliance.
It is not in the interest of any country to pay its own producers at a level lower than the cost of imported supplies. If such a scheme were used, the true cost of food to an importing country would be unnecessarily high.

Preceding discussion has suggested that MCA's might disappear and that the UK agree to buy from other member countries at a trading price. This would be a preferential price compared with third country supplies and therefore represents the lowest import price available to the UK. The level at which the trading price is fixed is a matter for decision by the Council of Ministers. It is however most unlikely that it could be fixed as low as the prices currently paid to farmers in the UK as a result of MCA's. This implies that UK farmers are likely to get substantially higher prices than those currently prevailing.

However, the UK government can, if it sees fit, provide for consumer prices to be held at a lower level. This might be done by subsidies on specific products. Alternatively, it might be in the form of subsidies to particular people. The US food stamp system provides some pointers towards possible schemes. How far the Government and public are willing to go in this direction must depend upon their own assessment of priorities and their willingness to finance such support.

Given that the Community trading price is likely to provide a basis for appropriate minimum prices for UK farmers, the Government must review the remaining aspects of its agricultural policy to ensure that agricultural resources are used as efficiently as possible. This is familiar ground and many past policy initiatives are still relevant. Training and agricultural extension help raise farm incomes and also the benefit derived from agricultural resources. Schemes which facilitate farm improvement, irrigation, drainage, enlargement, etc. can also contribute. Outside the farm gate, competition is probably the most important factor in ensuring efficiency in agricultural supply and processing industries, but
market information, market studies and research, farmers’ and traders’ co-operative organisations may all help. One area in which additional effort might now be justified is research directed towards a more complete enumeration of the market possibilities within Europe. It is essential that the specific requirements of particular markets be well understood. A better recognition of market opportunities might steer investment towards more profitable channels.

The agricultural industry will continue to be affected by other policies not specifically directed at farming. For example, it is possible that capital and wealth taxes may prevent large farms being passed on intact to succeeding generations. If there are real economies of scale, then a process of sub-division would reduce the value the nation derives from such farms. The industry is well aware of such hazards. In a recent report (Agriculture EDC, 1976) attention was drawn to the problems of tied cottages and of taxation. A government has to weigh ‘efficiency’ arguments against other aspects of its policy. What is crucial is a conscious, public and numerate attempt to indicate what loss or gain may be implicit in some change in policy.

In the Annual Review of Agriculture for 1977 the Government says it ‘considers the policy of expansion and the priorities set out in Food from our own resources are still valid and should continue to guide decisions on agricultural policy’. This statement may surprise many farmers who feel far from confident about maintaining their current rate of output, let alone expanding. This lack of confidence is partly due to adverse weather which has added to costs and restricted output. It partly reflects the inevitable confusions and disappointments of moving to the CAP at a time of very rapidly rising world prices. There is also some feeling that farmers have been unfairly treated through the maintenance of very large MCA’s. There can be little doubt that a decision to move from MCA’s to a Community trading price, fixed at a moderate level and flexible in relation to surpluses and major moves in world price, would help to restore farmers’ confidence.

This paper suggests that there is a case for expanding domestic production in the UK. In the longer term, if expansion is not attained, the costs of belonging to the Community may prove unnecessarily high. If UK farm output does increase then scope for influencing the CAP price level and for reducing the cost of food security to the UK will be enhanced. Within the Community the UK government seems to have sought to influence policy through resistance to price increases. It should also seek positive reforms in the CAP. At home, governments can help by continuing those policies which encourage efficiency and by giving due weight to the effect on agriculture of changes in other policies. Such an approach is consistent with the need to ensure reliable food supplies at minimum cost. It might also enable agriculture to contribute to the recovery of the economy as a whole.
Ultimately it is upon such a recovery that the hopes of improved living standards for farmers and consumers alike must depend.

References


Appendix:
Construction of table 4.1

Table 4.1 depicts the comparative efficiency with which different sectors of the economy utilise both the direct and indirect primary resources in producing final consumer output. Strictly speaking, the figures do not relate to the industrial sectors as defined in the Standard Industrial Classification but to the industrial sub-system portrayed in the national input-output tables. The agricultural sub-system, for instance, is seen as comprising not only agriculture but gas, electric, chemical and engineering industries just adequate to meet the input requirements of the farming sector. In this way, account is taken of the resources used both by the industry in question, and by the industries who supply inputs, in assessing the total primary inputs needed to produce one unit of final industrial output. At the same time, attention is focussed on final product sales to consumers, public authorities, exports and stocks; thus, efficiency has been expressed in terms of resource requirements per £ total final output and not total output (which includes intermediate sales to other industrial sectors). This is because policies such as export promotion are fundamentally concerned with stimulating final output.

Table 102 in Economic Trends, April 1976, provides a matrix of total requirements per £1000 final industrial output in terms of gross output in 1972. The entry in row (i) and column (j) represents the value of gross output of industry (i) required to produce £1000 final output by industry (j). For instance, to produce £1000 final agricultural output requires £1 056.2 agricultural products, £1.4 forestry products £27.8 mineral oil, etc. By dividing the figures in each row and column (x_{ij}) by the gross output of industry (i) and multiplying the figures by the respective estimates for the wage bill and the value of land and capital services, it is possible to estimate the direct and indirect primary resources utilised
in producing £1 of final output in industry \((j)\). The values of wages, capital services and rent assumed are depicted in Table A. The wage bill was taken directly from Table 100 in Economic Trends, April 1976. Capital stock figures were derived from the National Income and Expenditure Book for that year.

Table A
DIRECT RESOURCE INPUTS INTO VARIOUS INDUSTRIAL SECTORS

<table>
<thead>
<tr>
<th>Industry</th>
<th>Wages £m</th>
<th>Capital stock £m</th>
<th>Capital consumption £m</th>
<th>Gross rent £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>449</td>
<td>3500</td>
<td>157</td>
<td>180</td>
</tr>
<tr>
<td>Forestry/fishing</td>
<td>67</td>
<td>300</td>
<td>13</td>
<td>—</td>
</tr>
<tr>
<td>Mining</td>
<td>690</td>
<td>2400</td>
<td>100</td>
<td>—</td>
</tr>
<tr>
<td>Food, drink, tobacco</td>
<td>1228</td>
<td>4700</td>
<td>105</td>
<td>—</td>
</tr>
<tr>
<td>Chemicals, oil refining</td>
<td>893</td>
<td>7700</td>
<td>220</td>
<td>—</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>712</td>
<td>4300</td>
<td>154</td>
<td>—</td>
</tr>
<tr>
<td>Engineering</td>
<td>6087</td>
<td>14500</td>
<td>359</td>
<td>—</td>
</tr>
<tr>
<td>Bricks, cement</td>
<td>502</td>
<td>1700</td>
<td>0</td>
<td>—</td>
</tr>
<tr>
<td>Timber, furniture</td>
<td>408</td>
<td>600</td>
<td>7</td>
<td>—</td>
</tr>
<tr>
<td>Paper, printing</td>
<td>1053</td>
<td>2800</td>
<td>20</td>
<td>—</td>
</tr>
<tr>
<td>Textiles, leather, clothing</td>
<td>1299</td>
<td>5600</td>
<td>43</td>
<td>—</td>
</tr>
<tr>
<td>Construction</td>
<td>2282</td>
<td>2500</td>
<td>138</td>
<td>—</td>
</tr>
<tr>
<td>Gas, electricity &amp; water</td>
<td>764</td>
<td>18400</td>
<td>805</td>
<td>—</td>
</tr>
<tr>
<td>Transport</td>
<td>2405</td>
<td>16500</td>
<td>670</td>
<td>—</td>
</tr>
<tr>
<td>Communication</td>
<td>974</td>
<td>5800</td>
<td>367</td>
<td>—</td>
</tr>
<tr>
<td>Distributive trades</td>
<td>3569</td>
<td>21400</td>
<td>311</td>
<td>—</td>
</tr>
<tr>
<td>Miscellaneous services</td>
<td>5700</td>
<td>10300</td>
<td>448</td>
<td>—</td>
</tr>
</tbody>
</table>

Capital services were assumed to be equivalent to an interest charge of 15 per cent on the value of the capital stock. Only in the case of agriculture was an estimate placed on the value of services derived from land, based on data supplied in the Annual Review of Agriculture. In the absence of a break-down of rent payments by industrial sectors it was not possible to estimate land inputs into other sectors, though it is probably not unreasonable to assume they were fairly unimportant. Occasionally, it was necessary to combine sectors, as for instance in the case of engineering, to produce a more aggregated industrial grouping; in such cases the weighting procedure employed was the gross output of the industries.
in question. Allocation of primary input resources in relation to the proportion of gross output of industry (i) accounted for by industry (i’s) requirements, presupposes that £1 of chemical input into agriculture, say, utilises the same amount of primary resources as £1 of chemical input into the steel industry.

One awkward issue is how to handle depreciation. Arguably, there is a need to distinguish between capital input proper and depreciation of capital stocks. Capital input proper is the use of the total amount of purchasing power required to run the (national) farm. This amount represents far more than capital invested in durable means of production. This flow of input is the annual service rendered by the total capital; its index is the interest on the total number of units of purchasing power used. On the other hand, that part of the stock of capital goods annually consumed in the production process cannot in fact be considered as an original factor of production but should be treated essentially as an intermediate product. To arrive at a true measure of resource efficiency, it is necessary perhaps to deduct estimates of capital consumption from final output to arrive at the net final output. The resulting output/input ratio is given in Column 6 of Table 4.1.

In interpreting the results a number of caveats have to be observed. First, while the results may be fairly meaningful as regards comparative efficiency, great care is needed in interpreting the absolute efficiency levels. In particular, the choice of interest rate employed in estimating capital services is likely to affect the apparent absolute levels of final output per £ of resources, though arguably, not the relative levels. Furthermore, it is assumed that the resource levels are perfectly adjusted to the output levels in 1972, i.e. there is no over-manning or excess capital stock and hence all industries are operating at full capacity. Clearly, if the engineering industry were working at less than full capacity, additional production could be secured at zero cost at the margin. Hence though engineering as a group appears to give a lower final output per £ of input, it would in fact be less costly in terms of primary resources in achieving a marginal expansion of output.
CENTRE PUBLICATIONS

1. Centre for Agricultural Strategy (1976) *Land for agriculture.* CAS
   Report 1. Reading: CAS £1.50.

   Text of paper presented to the Royal Society of Arts, March 1977. £0.10.

Available, post-free, from the Centre for Agricultural Strategy, University of
Reading, Earley Gate, Reading RG6 2AT.