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Centre for Agricultural Strategy

STRATEGIES FOR THE RURAL ECONOMY

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CENTRE FOR AGRICULTURAL STRATEGY

STRATEGIES FOR THE RURAL ECONOMY

CAS CONFERENCE - TUESDAY, 30TH JUNE 1990

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INTRODUCTION

Some 80% of the land in the UK is still managed for agriculture and forestry. Landowners are, therefore, uniquely the custodians of the countryside and its appearance remains critically dependent on their activities. But the role of agriculture in the rural economy has considerably diminished in recent years. And whilst agriculture remains the central activity of landowners and farmers, pressure on farming incomes means that they have had increasingly to redeploy their assets to remain in business.

What is the present position and what strategies are needed to enable landowners to maximise their contribution to the rural economy and environment?

THE PRESENT SITUATION

The industry is undergoing a period of great strain. Incomes are only half their immediate Post-War levels and the Rural Development Commission has forecast the loss of a further 100,000 jobs by the end of the decade in England and Wales alone.

We now have the recent package of so-called CAP reform measures - "so-called" reform since there are important elements which are quite the reverse.

The move away from support for the product, and the recognition of the need to integrate environmental and agricultural policies are potentially welcome. Price cuts are acceptable if they encourage a fitter and more internationally competitive industry.

But other elements of the package will restrict the scope for this and the package has some serious flaws which will damage the development of a competitive industry.

Reform covers only a fraction of EC production. The exemption of the smallest producers from production controls may be politically and administratively expedient. But their combined output in an over-supplied market will adversely affect prices. The compensation arrangements no longer discriminate against the UK. But they will keep uncompetitive holdings in business longer than would otherwise be the case to the detriment of the market. They will also impose a severe financial burden on the EC which, in the long run will not be sustainable.

The major increase in quota or quota-type restrictions on production is of particular concern. They may be a quick way to cut production in the short-term. But such arrangements are economically unsound, encourage capital to be siphoned out of the industry, tend to become permanent and will limit the scope for modernisation and development of a competitive industry.

The environmental measures, unless developed and properly funded, will be quite inadequate to the needs both of the industry and the countryside.

It is very difficult to determine what all this means for UK agriculture. Not least, many details of the package remain obscure. Some, such as the intervention standards for wheat, will be critical for the economic wellbeing of the UK industry. It is also uncertain how durable the package will be in GATT.

The impact on farmers will also depend on whether the package can bring supply and demand into better balance. If it succeeds, prices could actually rise since cereals threshold prices for 1995/96 are higher than current intervention prices. It is an interesting reflection that virtually all analysts, so far, seem to assume that it will fail dismally since all their forecasts are on the basis that prices will remain at the reducing intervention levels, i.e. that over production will remain the norm.

Three conclusions can be drawn from this. First, pressures on incomes from farming will remain intense. Second, there will inevitably have to be a further dose of CAP reform before long to deal both with continuing over-production and with mounting costs. Third, the need for a flexible framework within which Landowners can develop all their assets is greater than ever.

CIA STRATEGIES FOR THE FUTURE

The CIA sees nothing fundamentally new in the present situation. It is the intensity of the pressures on farming that has increased. The CIA accurately forecast the likely pressures on agriculture some ten years ago and to deal with the resultant problems has consistently been pressing for an integrated package of policies embracing agriculture, the environment and the wider rural economy.

The central issue is the need for the industry to be allowed to generate profits. This remains a dirty concept for some, but it is inescapable. State handouts are not the answer. Not only is it quite unrealistic to envisage that sufficient central funding will ever be forthcoming, but there are large areas of the countryside where it is virtually impossible to design schemes that will preserve the environment that the public - and indeed landowners themselves - desire. And self-sustaining economic activity is the only sure basis for a sound rural economy.

Reform of the CAP will inevitably continue. This must give greater play to market forces within the EC with adequate protection against dumped imports. There must also be a genuinely Common Market within which UK products can compete on equal terms throughout the EC. Compensation measures should be temporary and degressive. And there must be no discrimination in support between producers on the basis of farm size or other arbitrary factors.

One significant exception to restrictions on support are the Less Favoured Areas where continued aid is essential given the fundamentally unprofitable nature of agriculture there if the socio-economic fabric and the environment of these areas is to be preserved.

The other exception is the environment since the market for environmental goods is commonly imperfect. There should be greater integration of environmental and agricultural policies. Environmental aids should be available to landowners and farmers throughout the Community without discrimination and should, so far as possible, be linked to positive actions to enhance the countryside.

There must be a determined effort to develop alternative land uses including forestry and woodland. UK and EC financial support for research into these would be a far better use of resources currently being squandered on surpluses of conventional crops. And the Government must rectify the nonsenses of the 1988 Finance Act, particularly in respect of the management of existing woodlands.

Improved, managed access to the countryside is necessary and, properly exploited, can generate useful new sources of income without harming the environment. The CLA's Report "A Better Way Forward" is an important contribution to achieving this and we hope that the deliberation of it in the Hazelhurst Committee will be fruitful.

A new issue of mounting importance is water where recent experience shows the need for much greater care in managing resources. In the UK,

spray irrigation is commonly needed, not to increase quantity but to achieve better quality standards. Failure to reach these will result in further imports to the detriment of the UK industry and the balance of payments. The CLA is working with Government on strategies to maximise the availability of water in the short term within existing resources. An important requirement for the longer term is that new development should only be permitted where water can be made available without adverse effects on the environment and on existing users including agriculture. Greater provision for winter storage of water will also be important.

To maximise profitability at a time of constraints on agricultural support requires a flexible approach in three other crucial areas - all directly under the control of HMG.

- Landlord/Tenant reform. There is virtually universal agreement on the need for reform but less on its nature. It must be in everybody's interests to introduce the maximum flexibility into this sector as soon as possible. There must be legislation in 1993/94 based on freedom within contract.
- Tax. Agriculture must, in future, be treated as a business and taxed accordingly. Reductions in Capital Gains Tax are also urgently required for agriculture as for other sectors. There is mounting evidence that a rate around 20% would actually increase returns to the Exchequer whilst freeing up the economy by releasing locked up capital.
- Planning. Without flexible and imaginative planning, farmers will not be able to develop alternative assets to compensate for the loss of agricultural income. Attitudes of planners vary widely. A recent positive example encountered by the CLA is of a planning authority who have been happy to allow major redevelopment of many thousands of square feet of farm buildings creating an additional 170 jobs on site and no doubt others in the local economy as a spin-off. This contrasts with another draft local plan where Planners have set a

wholly artificial restriction on the maximum size of conversions of only 150 sq. metres providing some ten jobs. The CLA is fully in favour of appropriate planning controls and has published proposals on this. But they must meet the needs of the countryside. It also welcomes the new PPG7. This, Mr. Gummer's speech at the recent Stoneleigh Planning Seminar and the Prime Minister's speech at the Oxford Farming Conference show a welcome new realism by the Government on the need to promote economic development in the countryside with landowners playing their full part in the process. It is essential that Planning Authorities now heed this approach by showing a similar realism and that Ministers act vigorously to ensure that their policies are properly implemented. Action to support the rural economy must include adequate provision of the services needed including police, transport, schools, shops and, a key factor, affordable housing.

Implementation of this integrated package would be greatly facilitated by institutional change in Whitehall. Fragmentation of policy making and rivalries between MAFF and DoE can hinder progress. The CLA has long pressed for a coherent Ministry of Rural Affairs and still believes this would be advisable.

CONCLUSION

Incomes from agriculture are at a low ebb and there is no immediate prospect of improvement. This will adversely affect the rural economy and environment unless an integrated strategy on the lines consistently promoted by the CLA is now urgently implemented. Much of this is under the control of the Government. They must heed this and act accordingly.

Landowners are ready and eager to play their own part.