

Agricultural structures in the UK and the influence of the EEC

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When entry to the Common Market was first discussed British farmers were thought to have an important advantage because of the favourable structure of agriculture in the UK. Compared with the continent, farms operated on a larger scale. This helped the industry to accept and apply new technology. It was recognized that some other countries had, for some crops, more favourable climatic conditions but the general belief was that British farmers would prosper and prove competitive within the EEC.

Events since 1973 have seemed to belie this expectation. After an initial rise in output in the early 1970s farm production has fallen back, so that the forecast net product of 1976–77 was only 81% of the level reached in 1974–75. At the same time the share of imports in total food supplies has risen from 32% in 1973–74 to 35% in 1975–76. In real terms the net income of the industry as a whole fell despite the fact that some farmers, notably potato producers, experienced record profits.

To attribute such events wholly to membership of the EEC is absurd. We have experienced two very dry summers. World market prices for feed ingredients reached record levels in the years following entry. The economy as a whole has been in deep recession. Some aspects of UK domestic policy may not have helped. Farmers have been concerned about capital transfer tax, tied cottages and the possible effects of a wealth tax. However, a major source of frustration has been the Common Agricultural Policy (CAP).

To understand why a 'good structure' was not enough to ensure competitiveness it is necessary to examine what we mean by agricultural structure, to relate this to the competitiveness of the industry and to examine the operation of the CAP.

The concept of structure

The term 'agricultural structure' is usually used to refer to the more durable resources employed by the industry. These include land, its division between farming and other uses and into farms of different sizes and of different types of occupancy. Another structural dimension comprises the size of the permanent labour force, farmers and farm workers, full and part-time workers, men and women. A third element is the structure of capital, its type and ownership.

The industrial structure of agriculture cannot, however, be conceived in terms of what happens on the farm alone. Modern agriculture relies on specialized inputs, processing and distribution businesses. Research and development, often financed by public funds, is also usually carried out off the farm. Although good information

Table 1. Land area (ha) and distribution according to farms of different size, 1974

| Farm size (ha) | UK | | Germany | | France | | Italy | | Netherlands | | Belgium | | Denmark | | Ireland | |
|------------------|------|-------|---------|-------|--------|-------|-------|------|-------------|------|---------|------|---------|------|---------|------|
| | (a)* | (b)† | (a)* | (b)† | (a)* | (b)† | (a)* | (b)† | (a)* | (b)† | (a)* | (b)† | (a)* | (b)† | (a)* | (b)† |
| 1 and < 5 | 14.7 | 0.7 | 34.8 | 6.7 | 20.8 | 2.4 | na | 19.1 | 25.2 | 4.7 | 30.4 | 5.9 | 12.1 | 1.6 | na | 2.5 |
| 5 and <10 | 12.6 | 1.4 | 19.8 | 10.7 | 15.6 | 4.8 | na | 15.7 | 21.7 | 11.3 | 22.8 | 12.4 | 19.7 | 6.5 | na | 7.3 |
| 10 and <20 | 15.9 | 3.6 | 23.7 | 25.5 | 23.6 | 14.0 | na | 15.6 | 30.7 | 31.0 | 26.9 | 28.6 | 28.8 | 18.9 | na | 21.3 |
| 20 and <50 | 26.6 | 13.6 | 18.9 | 41.1 | 28.9 | 38.2 | na | 15.2 | 20.3 | 41.2 | 17.9 | 36.6 | 32.1 | 44.1 | na | 37.2 |
| 50 or more | 30.2 | 80.7 | 2.7 | 16.0 | 11.1 | 40.6 | na | 34.4 | 2.1 | 11.8 | 2.9 | 16.5 | 7.3 | 28.9 | na | 31.7 |
| Totals | | | | | | | | | | | | | | | | |
| *000 farms | 277 | 17806 | 929 | 12527 | 1261 | 29619 | na | na | 146 | 2083 | 110 | 1479 | 132 | 2927 | na | na |
| †1000 ha of land | | | | | | | | | | | | | | | | |

na, not available

* (a) % total farms in each size group

† (b) % total area in each size group

Source: The Agricultural Situation in the Community, 1975 Report. Brussels, 1976.

Table 2. (A) *Employment in agriculture 1973.* (B) *Average annual percentage change in total agricultural employment.* (C) *Age distribution of workers in agriculture in EEC (6) and UK 1973*

| | UK | Germany | France | Italy | Netherlands | Belgium |
|--|------|---------|--------|-------|-------------|---------|
| (A) Total agriculture employment | 722 | 1954 | 2559 | 3192 | 304 | 144 |
| % of all employment | 2.9 | 7.5 | 12.2 | 17.4 | 6.7 | 3.8 |
| (B) % annual average of change over all 1958-73 | -1.2 | -3.3 | -2.92 | -3.62 | -2.57 | -3.63 |
| (C) Age distribution of workers in agriculture 1973 in EEC (6) and UK. | | | | | | |

| Age group | % of agriculture workers | |
|-----------|--------------------------|------|
| | EEC (6) | UK |
| 14-24 | 8.9 | 14.3 |
| 25-34 | 13.5 | 18.6 |
| 35-44 | 24.1 | 20.1 |
| 45-54 | 28.1 | 21.8 |
| 55-64 | 18.4 | 19.1 |
| 65+ | 7.0 | 6.2 |

Source:

A and C—IBID.

B—SOEC—The Common Market Ten Years On (Brussels 1968) for 1958 figures.

For 1973 figures as A and C.

Table 3. *Some aspects of capital in European agriculture*

| | UK | Germany | France | Italy | Netherlands | Belgium |
|--|-----|---------|--------|-------|-------------|---------|
| (A) Fixed capital formation in agriculture | | | | | | |
| forestry 1972 | 424 | 723 | 973 | 648 | 186 | 90 |
| and fishing | | | | | | |
| £m 1973 | 530 | 916 | 1333 | 745 | 329 | 146 |
| (current price and exchange rate) 1974 | 582 | 974 | 1393 | 870 | 358 | 140 |
| (B) Tractors per 100 ha arable land | 6.6 | 17.6 | 7.1 | 6.4 | 17.5 | 11.5 |
| Combine harvesters per 100 ha cereals | 1.6 | 3.2 | 1.5 | 0.5 | 3.1 | 1.5 |
| Milking machines per 100 dairy cows | 4.1 | 8.8 | 4.5 | 1.9 | 4.2 | 4.7 |

Source: MAFF. EEC Agricultural and Food Statistics 1972-1975. London.

on these activities is not readily available, their significance should not be overlooked.

Finally, the concept of structure must allow for the relationship between the use of these durable resources in agriculture and their value in other uses. This value will change in response to technical progress which may enhance the physical productivity of these resources in agriculture and other industries at different rates or in response to changes associated with underlying shifts in supply or demand for the capital concerned. Thus the structure of agriculture cannot wholly be separated from the structure of the economy as a whole.

Agricultural structures in the EEC

Statistical data provide some guidance about the main structural characteristics of agriculture in the UK and other EEC countries. Tables 1–3 confirm many commonly held views. Farms in the UK are, in general, larger than in other EEC countries. The proportion of the national labour force engaged in farming is smaller. There is a substantial annual investment in all the EEC countries' agricultures.

Less well known, but important aspects of structure are also revealed by the figures.

First, the recent rate of decline in manpower has been more rapid in other member countries than in Britain. If this difference is sustained farm sizes in Europe may eventually tend to become nearer to those common in the UK. However, the process is slow and the rate of change may slacken as a result of slower growth in all member countries. Thus in the near future UK farms will continue to seem large by continental standards.

Second, the tables show how uneven is the distribution of the farm labour force between age groups in the original member countries. This implies that when the present generation of farmers in the 35–55 age group reaches retiring age, say from 1983 onwards, a relatively sharp reduction in manpower may occur. This should allow an accelerated process of farm enlargement. The UK has a more evenly distributed labour force but here, too, new entrants are still well below the number required to maintain the same sized labour force. The immediate prospects of rapid structural change may be modest, but in the final two decades of this century more substantial progress may take place. This could help to bring about a greater homogeneity in European agriculture.

Third, one disadvantage of the persistence of old structures is their tendency to trap too many resources in farming. This is especially likely to take the form of unnecessary capital in countries where economic growth has taken place. In Germany, for example, on a somewhat smaller agricultural area, investment in 1974 was 167% of its level in the UK. The German farmer seems to have used about twice as many tractors per 100 ha of arable land, combines per 100 ha of cereals and milking machines per 100 dairy cows as his UK counterpart. The abundance of such equipment may marginally improve output, but there is little

reason to believe that the larger volume of capital in German agriculture can be justified in terms of its productivity.

A good structure will relate the costs of various inputs to the opportunities for their profitable use within and outside agriculture. From the EEC's point of view this makes it crucial that neither costs, which represent the value of agricultural resources in other uses, nor prices which express the worth of farm output to the consumer should be distorted. Policies which modify market prices to take account of environmental values, of the benefits of stability in food supplies, etc., need not be called distortions. They can be thought about as corrections to undesirable market trends. Policies which produce unwanted surpluses or induce undue investment do distort production. In reaching a view account must be taken of social costs and benefits as well as of those which appear in balance sheets or profit and loss accounts.

In European agriculture, agricultural policies allow the agricultural industries of some countries which have obsolete structures to remain competitive. The competitiveness of an industry depends upon its ability to sell goods of the same quality at lower prices than rivals and still make a profit. It makes little difference in terms of the arithmetic of competitiveness whether this is possible because of superior technical performance or because prices are artificially distorted. However, the survival of agricultural structures which have poor characteristics in terms of undistorted costs and prices makes the community as a whole poorer than it need be. It seems unlikely that the social benefits of maintaining outdated structures can offset such costs.

The conviction that increased scale represents an improvement in structure is supported by much contemporary argument and evidence. Although, as Britton and Hill have pointed out, there may be limits to such economies of size, each year statistics show that most farm enterprises have become larger. The introduction of new capital, the reduction in manpower and the improved productivity of resources which remain, all seem to demand farms larger than those typical of Europe.

In many cases the economies derived from increased enterprise size outstrip the ability of the industry to re-allocate land into larger units. As a result farms tend to become more specialized. This permits a more efficient use of resources on the farm and could be thought of as a 'good structural' adaptation. However, it may make the farm business more vulnerable to adverse price movements. Again, the modern well-structured farm is linked to the rest of the economy through markets in inputs and outputs which traditional peasant farmers may not have required. As a result cash flow problems may assume added significance. Thus a 'good' technical structure may, if bad years continue, prove more vulnerable than poor peasant agriculture.

The influence of the CAP on UK agricultural structures

Recognition of the potentially vulnerable nature of a good structure is critical in understanding the problems which the CAP poses for Britain and the EEC. The

1972 negotiations suggested a phased, five-year transition to a price level common to all member countries. This goal has never been reached. Monetary compensatory amounts used to keep UK food prices down have meant that in real terms farmers selling prices in Britain have remained below those of their continental rivals. Some costs, notably for feed, have also been kept down, but UK farmers have had to contend with one of the most rapid rates of inflation in non-farm inputs in Europe. In Germany the reverse has happened, so that farmers selling prices have been relatively sustained in real terms and costs have grown more slowly than in other members.

Such distortion may damage agricultural structures should it continue for many years. Already there is a tendency for investment to lag in the UK. In Germany substantial investment continues in farm structures which are obsolete and imply high labour costs. Much of this capital is fixed and long lived. It is likely to remain in business for some years even if prices were to fall. This in turn must discourage more rational patterns of investment elsewhere in the EEC. The result is not just temporary hardship for UK farmers but a reduction in wealth for the community as a whole.

Opposition to the current level of monetary compensatory amounts is widespread. In the short term their reduction must be influenced by the extent to which the British government feels able to cope with the resulting rise in food prices. However, their perpetuation seems inconsistent with a successful Community. Probably the most beneficial course for the UK and the EEC as a whole would be to negotiate a reduction in monetary compensatory amounts against improvements in the CAP. Such improvements might take various forms. For example, if the Community allowed its official prices to respond more rapidly to underlying supply and demand conditions in the Community and in the World this would be an improvement. Alternatively, governments might be given more freedom to aid their own farmers or consumers in line with national economic policy, but obliged to trade within the Community at agreed prices. Such a change could allow more sensitive economic and social policies at the expense of each member, whilst ensuring that trade took place at favourable terms within the EEC. Such developments are consistent with a positive view of the Community's role in agricultural policy.

In the longer term three broadly helpful elements should be noted. First, if the tendency for increased farm size in Europe is sustained, the gap between farming structures in Europe and in the UK will narrow. Although progress is slow the prospects for lower cost food production as opportunities increase to use land, labour and capital more productively, will grow. If the Community continue their policy of allowing the real price level fixed at Annual Reviews to fall, this development may be accelerated. A declining ratio of farmers to consumers makes such a stance politically possible. Second, it seems unlikely that in the next 2-3 decades the CAP can remain unchanged. Not only are current problems of surplus and monetary compensatory amounts demanding change but as farming structures change in Europe the needs and anxieties of UK and continental farmers

will approximate. For example, the wish to keep consumer prices down seems likely to grow. Greater emphasis may be given to relating what happens on the farm to input, processing and distributive enterprises. More modern structures may give impetus to policies designed to smooth adjustment rather than stick too rigidly to historic price relationships. Changes in these directions should help to make UK farming more competitive. Third, there is an underlying logic in positively seeking a better deal for British farmers within the CAP. What has happened is a long-run deterioration in the competitiveness not of UK farming but of the UK economy. This means that unless the Community is prepared on a long-term basis to subsidise sales of food to the UK, imports will become increasingly costly. The UK economy shows few signs of recovery relative to other member countries. If monetary compensatory amounts or other subsidies are removed then unless UK living standards are not eventually to fall more than is necessary, extra food must be produced at home. For the moment it may be a struggle for UK farmers to survive. If they do, then in a European agriculture which is modernising, good structures in Britain may ultimately prove the asset which their underlying technical efficiency suggests.

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