comment

The Awful Consequences of the CAP

John Fisher

This article looks at the grosser absurdities and paradoxes of the Common Agricultural Policy (CAP). The unsustainability of the CAP over the long run is well-appreciated in Western Europe but, hitherto, the emphasis has been on containing a cost that rich countries could afford. The projected eastward expansion of the European Union (EU), however, means that policies of cost containment have only a limited future. More radical answers are needed to overcome the biggest disaster to arise out of the otherwise welcome movement towards European unity.

Origins and objectives

The CAP was a fundamental part of the drive for European unity. It was first formulated in 1960 and came into operation in 1962. The reasons for its centrality reflect immediate and longer run European history: a siege mentality reinforced by recent wartime shortages. Nearly all European countries had protected their agriculture for at least a century and even traditionally free trade Britain joined the general trend after 1945.

A prime objective was to increase production, with a view to achieving self-sufficiency. It was believed that a strong farm sector made for a healthy economy, part of an Arcadian perception of rural society that, except in the countryside, seems to persist today.

The objectives of the CAP are set out in Article 39 of the Treaty of Rome as:

i. to increase productivity;
ii. to ensure a fair standard of living for the agricultural community;
iii. to stabilise markets;
iv. to assure food supplies;
v. to provide consumers with food at reasonable prices.

(See the European Union's website at http://europa.eu.int/pol/agr/info_en.htm)

Only the first of these objectives has been met in full. Otherwise, the record of achievement of the CAP is at best ambiguous, at worst one of total failure.

Results

The great success of the CAP has been to raise productivity per unit of land and labour, although in doing so it was building on a trend already in place in the 1950s. Western Europe was well on the way towards self-sufficiency in temperate foodstuffs, the basic staples of the European diet, by 1960. The CAP continued the existing encouragement of production maximisation, which necessarily meant the intensification of agriculture. Farmers, secure in the knowledge of guaranteed prices, proved willing to invest in improving both their fixed and variable capital. The latter especially, incorporating new technology in machinery, fertilisers and weed control, transformed farming. Arable land replaced pasture over large areas and land use has become intense to the point of factory farming. And, while the form of the CAP has shifted away from the early emphasis on price support, production maximisation and its consequences remain.

The price of food in the EU is high; about 50 per cent above what it would otherwise be in a competitive market. The true cost is impossible to determine properly due to the distortions to global food supplies caused by the CAP (Tyers and Anderson 1992: 189-94). Such costs fall disproportionately on the poor. Even so, this might not matter in rich countries, with extensive welfare systems, if the CAP was a success in other respects. Unfortunately, it is not.

The first visible signs of failure, appearing in the earliest years, were mountains of butter, lamb and beef, sugar and, above all, cereals. These were matched only by the lakes of wine (presently there is an annual surplus of 5 billion bottles), milk and olive oil. The problem is that consumption does not rise as people get better off. The mountains and lakes have to be moved or drained by European bureaucrats, with predictably calamitous results.

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Trade and agricultural economists have demonstrated that subsidised exports are a key factor in preventing farmers in poor countries from improving their lot (Tyers and Anderson 1992: 137-44). The adverse impact on traditional food exporters, like Australia, is too well known to require comment.

An OECD study in 1992 found that the direct cost to EU citizens of payments into the CAP was US$450 per capita per annum (more than the USA if less than Switzerland and Japan; GATT 1993). Again, this understates the real burden; CAP payments have declined as a proportion of the EU budget but only as other expenditures, some of which, as in the case of regional support schemes, also go to farming and farmers.

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Nor, despite the record and continuing reality of surpluses, is the EU self-sufficient, even in temperate foodstuffs. While the staple foodstuffs may be grown in Europe, the inputs that make this possible are global in origin. If the question of self-sufficiency has any relevance in the modern world, which is doubtful, then it is far from assured to Europe.

The CAP has also helped to poison relations between various member states and among groups within the EU. The CAP provides a general umbrella within which member states can pursue further forms of farm support. Their generosity has never, however, been unlimited. Many such schemes have been designed to enable specific national farmer groups to squeeze the greatest possible benefit from the general CAP. These schemes have had some interesting results, some predictable, others entirely unforeseen.

The damage done to the natural environment was a predictable consequence of production maximisation, as was the massive level of fraud under the CAP, especially as support schemes became more and more complex. Fraud is generally reckoned to account for at least 10 per cent of the CAP, costing about 3 billion ecus in the mid-1990s. Some estimates go higher (Tutt 1989). As to the unforeseeable consequences, the story of Mad Cows Disease provides a nice illustration.

Mad Cow Disease

The CAP was at least a contributor to the onset of Bovine Spongiform Encephalopathy (BSE). Historically, Britain has been a major importer of meat. The position changed rapidly under the CAP in the 1970s. With traditional sources of meat, like Australia and New Zealand, progressively eliminated, the market share of domestic producers increased.

During the 1980s, the market for red meat declined, competition from other EEC producers grew and costs increased greatly as feed supplies had to be bought at CAP rather than world prices. Producers responded by increasing their herds and switching to more efficient feeds than the grass and cereals traditionally used. These new forms of feed, the meat and bonemeal concentrates (the residues of rendered animal carcasses), were directly implicated in the origins of what was an entirely new disease in cattle (Fisher 1998).

In the 1980s, despite the increasing concerns voiced over BSE, a flourishing export of meat and live animals to the rest of the EU was developed. This was stimulated by Tory government measures, including manipulation of the 'green pound',[1] designed to encourage livestock farmers out of dairying into beef and lamb as EU bureaucrats introduced milk quotas to drain the milk surplus.

The export trade collapsed when what had been pronounced repeatedly to be an impossibility, or only a remote possibility–the transfer of BSE from cattle to humans–was found to be probable. The European ban on British cattle exports led to John Major's 'beef war' in 1996, and the episode may yet have more adverse consequences. Before the ban, EU regulations on live cattle exports supposedly ensured that these could not come from any herds with a history of BSE. However, as with most such regulations, enforcement was not taken seriously (except by a few veterinarians who refused to be paid off; Fisher 1997). BSE will continue to appear in other EU countries' herds (Fisher and Perkins 1997).

Mad Cow Disease has probably done more than all the efforts of environmentalists and green politicians to alert

[1] 'Green currencies' were developed to maintain common EEC prices in the face of divergent currency movements in the EU. They were of course manipulated by national governments in order to reap temporary advantages from CAP payments–hence the multiple pig movements across the Irish border.

the general public to the potential negative implications of intensive farming. It has also increased awareness of the radical changes in rural society that have accompanied intensification.

The CAP and French rural society

The extent of French commitment to the CAP was demonstrated during the final stages of the GATT negotiations over world food trade in 1993. No other EU country has benefited more and nowhere else could the CAP be presented as such a great success. French farms remain the Elysian Fields of upper-middle class Englishmen like Auberon Waugh. If the French countryside does retain elements of a more desirable past, however, it is at odds with the general trends in French agriculture and rural society.

From being a net food importer at the beginning of the 1960s, France became the second largest food exporter in the world in the 1990s. It now accounts for about 10 per cent of world food exports, of which three-quarters goes to other EU countries. Exports were worth 186 billion francs in 1991; net food exports doubled in the 1980s at a time when manufacturing exports fell into deficit (Carr 1992).

French farmers received a gross subsidy of US$34 billion in 1990, supplemented by national measures, the cost of which probably exceeded CAP payments. However, French farmers, its chief beneficiaries, are notoriously the most militant in the EU. They demonstrate constantly against: farm imports from the rest of the EU, politicians favouring GATT negotiations and, strangely, the EU itself. This paradox has a simple explanation.

Despite the massive and increasing level of assistance, French farm incomes have not on average improved during the reign of the CAP. Some farmers have gained in absolute terms, the majority have not and, overall, income has fallen appreciably in relative terms. Non-farm incomes have risen by 50 per cent over the past thirty years; net farm incomes have changed little in real terms with the nominal amounts undergoing massive fluctuations (*Economist* 19 September 1992).

In response to declining incomes, French farmers have not only held militant demonstrations. They have been giving up. Between 1950 and 1990, the numbers in French agriculture declined from over 4 million to less than 2 million. The number of farmworkers has fallen particularly rapidly in recent years: from 230,000 in 1979 to 150,000 in the early 1990s. Of the French farmers remaining on the land, 45 per cent have non-farm jobs.

The traditional French peasant is getting old. The average age of farmers is over 50. Only 15 per cent of those living on farms are under 25. In the decade to 1991, the average size of a farm close to doubled, from 19 to 31 hectares. The number of holdings over 100 hectares has doubled to 45,000 in 25 years to 1990 (*Economist* 19 September 1992). The same trends are evident throughout the EU. Despite high assistance, the farm sector has shrunk and is increasingly dominated by the large capitalists who know best how to practice intensive farming and how to access subsidies.

Why then, despite their rapidly-declining numbers, are farmers able to win ever-increasing financial assistance? Further, why, despite ever-increasing assistance, are farmers never satisfied with its level?

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Farm support, farm costs and land values

According to Ricardo (1819: 335), rent is that part of the 'surplus produce of soil that ... after deducting from it only such moderate profits as are sufficient to encourage accumulation, must finally rest with the landlord.' Suitably modified, Ricardo's proposition fits the bill for what has happened in farming in EU countries since World War II.

Over the past fifty years, European farmers have received substantial income gains in a series of discrete episodes. The first was in the early post-war era of food shortages combined with tariffs or subsidies, the second when the CAP was first instituted. A third episode came during the freakish times of the early 1970s when, briefly, world market prices rose above CAP intervention levels. The last was in the late 1980s and early 1990s as CAP bureaucrats attempted to shift intervention from price to (partial) income support at a level of generosity meant to assuage farmer fears. In between these times, the return to farm labour and working capital has declined.

The one-off benefits to farmer incomes from each assistance package have been dissipated over time through a combination of rising costs and higher land values. The price of land has risen consistently in Western Europe over the past fifty years, usually well ahead of the general price level (*Economist* 15 June 1996). As input prices and land values rose, farmers had various choices in meeting the trend: holdings could and were farmed more intensively (especially by replacing labour with capital); their size could be increased; farmers could leave the industry (at least partially) or they could clamour for more assistance. At the same time, such efforts were always liable to be compromised by the rising cost of inputs, loan capital and labour. At times, farmers had to run hard to stay in the same position.

Small, fulltime farmers, in France and elsewhere, who received more than half their income from subsidies were particularly at risk. At the margin, it paid them better to seek more assistance than change farm practice but a further problem compromised this strategy. Under the direct price support system, small farmers received fewer benefits, proportionately, than large farmers. One study calculated that small cereal farmers received only $1 in $10 of the total support (Howarth 1985: 61-2). They are also least likely to possess 'the most important skill of all–filling in forms for the Department of Agriculture's various inspectorates.'[2]

The shift in the past decade away from price support to more direct assistance measures ought to have helped the small farmer. But rising costs continue to eat away at the benefits, while rising land values continue to inhibit their ability to spread these costs by expanding their holdings. The exodus from the farm thus continues, with the encouragement of governments keen to reduce their numbers of supplicants. The French, in particular, have put into place vigorous measures designed to get rid of marginal farmers and marginal farms. A voluntary redundancy scheme lured 800,000 farmers into retirement in the twenty years to 1992. Semi-public bodies bought up their land and reallocated it into what are considered more rational (i.e. larger) holdings (*Economist* 19 September 1992). In turn, this has consolidated the position of the large capitalist farmers who have emerged as the real power in the countryside of most EU countries.

In Britain, historically a country of large holdings by European standards, farmers had relatively low incomes before World War II. The subsidy system introduced by Labour in 1947 began a process which was rounded off by Britain's entry into the EEC. By the 1980s, it was estimated that a British owner-farmer on more than 300 acres was, in assets at least, a millionaire (Howarth 1985: 83). However, the contrast between the high value of their assets and relatively low returns to labour and capital, helps explain the farmers' chronic discontent.

It is less obvious why British farmers have been able to maintain the flow of benefits in the face of their declining numbers. Several themes have been addressed by economists and political scientists. Two are reviewed below.

In Britain, large capitalist farmers control the National Farmers' Union (NFU), which has long had an intimate if not incestuous relationship with the Ministry of Agriculture, Fisheries and Food. The NFU has grown close to the Country Landowners Association, the representative body of traditional landlords. Their membership increasingly overlaps. Further, whether or not it is 'the golfing wing of the Tory Party'[3], farmers have been present in Parliament out of proportion to their numbers in the electorate (Howarth 1985: 117).

There is an even more significant political theme. In all EU countries, but especially in France and Germany, full-time farmers are becoming an increasingly insignificant proportion of voters but they are supported by many others who retain some connection, however tenuous, with agriculture. These include landowners (or those hoping to inherit land) who, however small their holding or income from farming, would yet be reluctant to see the price of land, built up by farm support, compromised by abandonment of the CAP. Four decades of support programmes have built an impressive body of vested

Four decades of support programmes have built an impressive body of vested interests ranging well beyond full-time farmers, opposed to major change.

[2] *Private Eye*, 20 July, 1990.

[3] *Private Eye*, 14 April, 1989.