

Editorial: Reforming the CAP

Linda Whetstone

Spending on the Common Agricultural Policy has been the main component of the EU budget for many years. It still consumes around half of its entire budget and provides the focus for some of the major disagreements among member states and between the EU and the rest of the world.

Attempts at reform have been legion and entirely unsuccessful. They have not reduced the cost of the CAP nor the friction with other countries. Nor have they created an acceptable, predictable situation for farmers: in fact they have done the reverse with the return to agricultural factors of production in the UK recently in free fall.

Most farmers realise the CAP as we know it is not the answer but they fear change. In this issue of *Economic Affairs*, we offer six succinct, robust papers on CAP reform in a genuine attempt to analyse problems and suggest workable, acceptable solutions unhindered by the emotion of vested interest groups. There is a high level of agreement and focus amongst the authors who are all sympathetic to the uncertainty and instability currently facing the farming community and look for a permanent solution with a soft landing.

Richard Howarth sets the scene with as clear a history of the CAP, its costs and problems and failed reforms as can be found anywhere. He admits that British agriculture is suffering from the worst crisis since the 1930s, despite a CAP budget of around £30 billion (set to rise) and prices within the CAP that have been, on average, double those in the rest of the world. He quotes Sir Ralf Darendorf, a former EEC Commissioner, as saying in 1979 '[the CAP] is little more than an instrument for Ministers of Agriculture to get for their farmers in Brussels and in the name of Europe what they would not get at their national Cabinet tables,' a point reiterated and expanded in another paper.

Berkeley Hill offers an innovative approach to 'ensuring for the agricultural community a fair standard of living.' He says the standard measure of income is based on factor returns in agriculture, concluding that 'Relatively low factor returns in agriculture do not necessarily mean that personal or disposable incomes of farm households are low, putting them below some arbitrary poverty line or at a disadvantage in comparison with households belonging to other socio-professional groups.' Furthermore, 'we have little idea how many farmers have personal incomes that compare poorly, or well, with the rest of society and even less indication of the extent to which they would be worse off

without the CAP.' He finds that EU farmers' disposable incomes are not conspicuously low as a group and suggests that for this reason aid would be more effective if targeted. His paper challenges the very basis of the CAP and leads one to raise the question as to why farmers should be supported simply because they are farmers, whereas the rest of us can only expect support when our incomes and capital resources fall below a specified low level.

Brent Borrell and Lionel Hubbard include extremely clear and up-to-date diagrams in their paper on the global effects of the CAP. They accuse it of being the most disruptive of all distortions to international agricultural trade, saying that it has not only forced considerable contractions in income and production elsewhere in world agriculture but also in other areas of EU production 'by imposing significant costs in terms of a loss of competitiveness in manufacturing, lower manufacturing output and exports, lower economic growth and higher unemployment.' They conclude that 'the biggest gains from trade liberalisation accrue to the country doing the liberalising.'

Séan Rickard supports Berkeley Hill by questioning 'the confusion and ambiguity surrounding the strategic objective of the CAP' and challenging whether the large sums spent supporting agricultural production improve the viability of most rural economies given that 'In the UK there are very few districts, let alone counties, where agriculture now accounts for more than 10% of economic activity.' He also challenges the income data used by ministers. He argues that high levels of support ensure that greater numbers are retained in farming with inevitable consequences on factor returns. Attempts to buttress support mechanisms with supply control policies have not prevented the loss of smaller farms but have raised costs on larger farms. His suggestion is that 'farmers must prepare for the removal of all production-related support' and instead should get a direct payment of, for example, £250 per hectare up to a maximum of 100: once established these payments would be decreased annually.

David Harvey accuses the CAP of having been 'both a corner-stone and stumbling block for the European Union' and introduces some helpful analytical ideas to break the CAP problem into areas for individual consideration. He says there are serious inconsistencies in current policies which make it difficult for those farmers who are inherently competitive and seriously discourage others from

making the changes that could safeguard their futures. He sympathises with farmers and maintains that they must see a workable alternative if they are to co-operate in the necessary changes. He suggests a menu of flexible market-oriented solutions from which farmers should be able to choose those best suited to them. These involve a measure of renationalisation of agricultural policy by the member states, a suggestion that is reiterated by Matthew Elliott and Allister Heath.

They provide a well-considered paper on the ability of the CAP to resist all attempts at reform, despite its widely accepted problems and the fact that it is one of the main causes of tension within the EU for the Commission with regard to the budget, international relations, the WTO and future expansion. They point out that the 'CAP benefits small minorities at the expense of vast majorities giving farmers far greater incentives to defend it than consumers and taxpayers have to abolish it.' Furthermore, the costs have been disguised by the declining importance of food prices to our standard

of living. Apparently there are over 150 groups lobbying in favour of high CAP spending, whilst consumers are represented by only seven individuals who are covering all their concerns in addition to agriculture. Vested interests prefer control to be central rather than local because they are then further from the electorates who eventually must pay the bills, which is why there is always resistance to any ideas that smack of renationalisation of agricultural policies. However, Elliott and Heath feel that there is at last some chance for reform: qualified majority voting would make it more likely, some net gainers will become net losers before expansion and there is a continuing and decisive drop in farmer numbers.

So there is general agreement that current CAP policies have failed on most counts and are currently putting farmers in an impossible situation. As David Harvey says, 'This is a major challenge for the political systems of the European Union. These systems have to be able to produce more sensible, defensible and sustainable policies if there is to be any genuine and lasting future for the Union.'