

EurPd



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21 November 1980

The Rt. Hon. Peter Walker, MBE MP  
Minister of State,  
Ministry of Agriculture, Fisheries & Food

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*Dr Peter*

*Prime Minister*

*Notes 21/11*

FARM INCOMES

(attached)

Your minute to the Prime Minister of 5 November commented further on the table of comparative profit and income statistics which you first circulated at the OD Meeting on 3 November.

My first comment is that I do not accept your implicit conclusion that the income experience of different sectors of the economy necessarily offers automatic guidance on policy. No-one, as I'm sure you would agree, can believe that they have some pre-emptive claim to maintain a previous level of real income, nor regard themselves as entitled to a traditional relativity with other sectors of the economy. Moreover, as between agriculture and industry the comparison is doubtful because the two sectors respond differently to the impact of recession and inflation.

Against that general background I have some particular comments on the statistics. I accept that the figures for net farming income, manufacturing profits and net income for other sole traders and partnerships all adopt the same treatment for depreciation, stock appreciation and interest. But there are various other points to note.

First I was interested to see that you adopted a "pre-interest" presentation for the three measures of business income. In earlier papers - including your paper OD(8)62 which we were in fact discussing on 3 November - you have quoted figures for net farming income which were after

/deductions



deduction of nominal interest costs but did not make the offsetting "gearing" adjustment to allow for the real gains from borrowing during a period of inflation. This earlier treatment of interest has been one of my reservations about the farm income figures you have been using, and it is of relevance to note that on the pre-interest basis the fall in farmers' "real" income seems to have been substantially less than the 50 per cent figure you quoted in OD(80)62. I am pleased that you have now adopted the different presentation.

But in addition I have doubts about the convention in the present net farming income definition of deducting an imputed cost for the labour of members of the farm family other than the farmer himself and his spouse. Arguably the returns to this family labour should not be treated as a cost but as part of farm income - and on that basis I understand that the implied "real" fall in recent years would again be reduced.

Turning to the comparisons in your table, your conclusion that farming has fared relatively poorly seems to depend heavily on the base date chosen and on the forecasts for 1980. Profits in manufacturing for instance are more cyclical than in agriculture, and your base date of 1975 was a very poor year for manufacturing, but broadly average for agriculture. Taking a base date in the early 1970s would significantly alter the apparent trends in the two sectors.

But more important is the status of the 1980 figures. I recognise that for net farming income your own statisticians are now making the initial 1980 estimates. But for the other business sectors you quoted the position is far less advanced, and the forecasts for manufacturing and for other sold traders and partnerships can be little more than guesses at this stage - particularly bearing in mind that the construction of both these unpublished series necessitates a good deal of assumption and approximation even for past years. That said, your apparent assumption that net manufacturing profits will be broadly maintained in money terms in 1980 (you showed a real terms fall of some 20 per cent) is perhaps rather surprising in the light of the trend of recent company reports.

Given the uncertainties I suggest your contention that farming income has declined seriously compared to other business sectors is at best premature and certainly not proven.

/As far as



As far as the farming sector itself is concerned I hope our officials will be able quickly to make further progress in their discussions on the various income measurements. The figures for net farm income - whatever the precise definition used - are only one source of information about incomes in agriculture. An important issue to be resolved is whether this series gives a reliable guide to what has really been happening to farmers' financial position.

I am copying this letter to the Prime Minister, other members of OD and Sir Robert Armstrong.

Handwritten signature and initials, including a large 'L' and a horizontal line above the signature.

GEOFFREY HOWE

21 NOV 1980



COMPARATIVE INCOME TRENDS  
INDICES 1975=100 REAL TERMS

	(a) Aggregate Net Farming Income	Net Trading (a) Profits of Manufacturing Companies	Net Income of (a) Other Sole Traders and Partnerships	Total Personal Income per head	Earnings in GB Manufact- uring ( all employees)	Salaries in GB Manufact- uring (non manual employees)
1970	105	158	89	84	88	93
1971	105	165	97	85	90	95
1972	104	182	115	90	94	98
1973	133	194	94	96	98	100
1974	102	86	111	99	99	97
1975	100	100	100	100	100	100
1976	109	107	99	99	100	102
1977	94	142	102	95	95	97
1978	89	154	115	102	101	103
1979	81	112	118	105	103	104
1980 (forecast)	65	90	115	105	103	103

(a) Excluding stock appreciation, before charging depreciation (at current cost) and before charging interest.

October 1980

Table B

RATES OF INFLATION AND PERCENTAGE CHANGES IN REAL INCOME PER HEAD IN  
 AGRICULTURE AND IN THE ECONOMY 1973 to 1979

		Percentage changes 1973-1979 as a whole
Germany	Inflation	+ 32.5
	Real income per head in agriculture	- 16.1
	Real income per head in economy	+ 19.3
France	Inflation	+ 80.6
	Real income per head in agriculture	- 8.8
	Real income per head in economy	+ 17.1
<u>Italy</u>	Inflation	+151.1
	Real income per head in agriculture	+ 13.3
	Real income per head in economy	+ 9.2
Netherlands	Inflation	+ 53.6
	Real income per head in agriculture	- 13.2
	Real income per head in economy	+ 16.8
Belgium	Inflation	+ 57.1
	Real income per head in agriculture	- 18.1
	Real income per head in economy	+ 15.3
Luxembourg	Inflation	+ 46.8
	Real income per head in agriculture	- 16.4
	Real income per head in economy	+ 8.3
UK	Inflation	+137.9
	Real income per head in agriculture	- 22.1
	Real income per head in economy	+ 2.6
Ireland	Inflation	+124.1
	Real income per head in agriculture	+ 12.4
	Real income per head in economy	+ 31.9
Denmark	Inflation	+ 74.0
	Real income per head in agriculture	- 7.9
	Real income per head in economy	+ 5.9
EC9	Inflation	+ 97.7
	Real income per head in agriculture	- 6.4
	Real income per head in economy	+ 14.3

Table E

BANK ADVANCES TO AGRICULTURE, UK

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	Total Agriculture and Forestry	Agriculture for current farming purposes and buildings and works <sup>(1)</sup>
1978 February	1558	1387
May	1609	1432
August	1804	1606
November	1918	1707
1979 February	1949	1735
May	2133	1898
August	2400	2136
November	2541	2261
1980 February	2604	2318
May	2774	2469
August	3059	2723

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(1) Excludes estimated advances for land purchase, and other adjustments.

October 1980