

SECRET

23 September 1983
Policy Unit

PRIME MINISTER

Prime Minister ①

AGRICULTURE

Yes MF.

Agree to X?

MS 23/9

You will recall the general feeling at Chequers that public expenditure on agriculture ought to be looked at. We are now spending over £900 million nationally (non-CAP) on agriculture. Public expenditure on agriculture has more than doubled under us. In this month's bilaterals, MAFF has been unashamedly asking for a lowering of the hill line so as to subsidise even more marginal land.

Even a tough Treasury stance in bilaterals will never undermine MAFF's belief that "more is better", whatever the costs of extra output to the taxpayer and the housewife. This illusion can only be dispelled by a clear lead from you.

+ Would you like to invite Michael Jopling to produce a paper on long-term options to be discussed at a meeting with you and Nigel and his team in October, after the Party Conference?

Would you like to invite the Treasury to produce its own comments for such a meeting?

We attach a paper setting out some of the main points in this argument.

Nearer the time, you might wish to consider whether to circulate this paper too.

FERDINAND MOUNT

JM

SECRET

SECRET

FARMING AND PUBLIC EXPENDITURE

1. The Costs

Public expenditure on agriculture has been one of the faster growing programmes of the last 5 years, from £813 million in 1978/9 to £1,754 million in 1983/4. About half of this is UK-determined.

On top of this, the value to farming of tax remissions and exemptions is about £1,200 million a year. The offsetting of expenditure on plant, machinery and building against income tax is valued at £700 million a year. VAT exemption is reckoned to be worth £300 million p.a; rates exemption is valued at about £200 million p.a.

Total public support of agriculture is thus in the region of £3,000 million.

2. The Role of Farming in the Economy

These huge sums go to an industry which produces a small and declining share of Britain's GDP - from 2.7 per cent in the early 1970s to 2.1 per cent in the early 1980s. The agricultural workforce is likewise declining - from 738,000 in 1970/72 to 639,000 in 1981, equivalent to 2.8 per cent of all civilians in employment; 161,000 of these workers are part-time or casual workers.

3. Who reaps the Benefits?

The present system is scarcely an effective way of channelling income support to British farmers. Cash payments from the Exchequer in support of agriculture now exceed farmers' net income, due very largely to the costs of disposing of community surpluses.

As in other European countries, the structure of subsidies and the general tendency towards larger farms means that the bulk of the subsidies increasingly goes to the larger and more well-to-do farmer. Wheat output has risen by 60 per cent over the last 4 years, and the area of land devoted to wheat has risen by 34 per cent. But in the same period, the number of small cereal farms fell markedly while the number of large farms increased. By 1981, 12 per cent of the number of farms of all types accounted for 50 per cent of total farming output.

SECRET

Food prices have gone up more slowly than other prices under this Government. But with modern agricultural methods, they should scarcely have increased at all. Poor families still spend a quarter of their incomes on food. High food prices push up index-linked expenditure on social security and prevent lower pay settlements.

4. The Self-Sufficiency Argument

Our Manifesto pointed out that since 1979, our food exports have leapt to £2,500 million a year. And since 1978, our self-sufficiency in food has risen by more than a sixth, from 53 per cent to 62 per cent. These are considerable achievements, but other industries might well have matched them if output had been encouraged and overseas competition deterred by a system of tariffs and subsidies costing £3,000 million a year.

The economic argument for "import saving at any cost" is severely weakened by a regime of floating exchange rates.

The national argument for maximising self-sufficiency in temperate foodstuffs also carries less weight today. It is hard to conceive of a world war which would deny us access to overseas food suppliers and which would last for years. Any shorter or less widespread conflict could easily be endured out of existing resources and stockpiles.

In any such conflict, since farmers now rely on imports for much of their fertilisers, artificial feedstock and machinery, their greatly increased use of these items in recent years would expose the nation to a new source of peril and occasion for blockade.

Besides, even if self-sufficiency at some price is still regarded as desirable, we still have to consider how great that price should be, and at what point we should cease to bring more marginal land into production.

5. The New Political Climate

"Tackling agriculture" has long been thought politically too dangerous, because of the Conservative Party's need to retain rural

SECRET

support. The relationship between the NFU and MAFF has been uniquely close and effective.

However, there are now other political factors to be taken into account, many of them no less important than the continuing need to retain the support of the farming community.

There is a rising tide of resentment at the impact of large-scale cereal farming (which present subsidies and tariffs encourage) on the landscape, particularly the uprooting of trees and hedges, and the loss of pasture. Membership of environmental protection groups, aside from the loony Left, is now larger than the numbers employed in agriculture - and rising. Many of these are lukewarm Government supporters who might well turn to the Alliance.

Not all farmers see the present pattern of subsidy as advantageous. Small farmers see large farmers gaining most, while the number of small farmers continues to dwindle. The high price of cereal - double the world price in 1981 - hits the small livestock farmer. Yet the rising price of marginal arable land deters the new entrant to farming.

The protectionist effect of CAP and UK subsidy, and the dumping to which it gives rise, is to undermine the effort of Third World countries to export those crops which they can produce far more cheaply than Continental Western Europe. This weakens their economies, denies us markets for manufactures, and adds to the debt problem. It creates unnecessary and damaging rows between the EEC and our greatest ally, the USA.

6. Options for Change

It will be argued that action is hard to secure because of the UK's policy ties with the EEC. Of course the CAP restrains us, and we have advanced proposals in Brussels to limit the cost and damage of the CAP. But what is extraordinary about our agricultural policy is that we reinforce the CAP with quite expensive measures of support of our own - belt and braces for the farmer. When farmers enjoy high and guaranteed prices, why do they need support for investment?

SECRET

SECRET

The Manifesto (page 22) contains very few commitments. It confines itself to promising help for the glasshouse industry to sell more and to improve heating and ventilation; and legislation to make more farm tenancies available for young people.

Within the UK, early action ought to be possible on the following expenditures:

- £489 million earmarked by 1983/4 for "Improvement of Efficiency and Productivity in Agriculture"
- £118 million for "Support for Special Areas"
- £95 million for "Safety and Welfare"
- £71 million for price guarantees, grants and subsidies not supported by the EEC.

Within the CAP, the figure earmarked for "Market Regulation" is £919 million in 1983/4, up from £362 million in the Government's first year of office. MAFF's attitude to reducing this expenditure lacks conviction. "Constraint on the level of CAP support prices is a major UK negotiating objective. Within this general aim it would, however, be wrong to deny the UK receipts from the Community budget or to put UK producers at a competitive disadvantage within the Community." (Attachment to Peter Walker's minute to the Prime Minister dated 30 March 1983.)

At present, far from reducing the scope of these programmes, we are adding to them. The commitments are cumulative and tend to increase very rapidly. In the 2 years before the EEC sheepmeat regime, the UK paid virtually no subsidy to farmers for lamb or mutton. In 1979-80, payments were £11 million, followed in succeeding years by £32.9 million, £42.3 million and £95.6 million.

7. The Need to Look at the Long Term

At present, there are no clear general guidelines either for MAFF or for the Treasury.

How much food in aggregate do we want to produce in this country?

SECRET

SECRET

What cost to the taxpayer are we prepared to tolerate in the interests of higher output?

Is there any limit to the acreage we want to see under cultivation?

How far do we wish to encourage smaller farmers to stay in business?

For an expenditure of £3,000 million a year, we need to consider the answers to some of these questions.

SECRET