

Farm Supports: An Agenda for Reassessment

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O farmers excessively fortunate: if only they recognized their blessings! (Virgil).

The farming community seems permanently dissatisfied with its lot. Commentators often portentously forecast financial disaster within the agricultural sector, and appeals for increased intervention are normally attendant. Yet it must be asked whether increased intervention can be sanctioned on tenable economic grounds. This paper seeks to address this issue.

The discussion proceeds in two parts. The first examines the extent to which the agricultural sector is subsidized, and overviews the shortcomings of the support system. Section two then delimits in detail three of the more prominent justifications for farm supports that have been forwarded, and concludes in each case that preferable alternatives to such supports exist.

The farming industry and sectoral supports

The agricultural sectors of the industrialised economies are the recipients of substantial indirect and direct support. In 1980, state and EC expenditure accounted for 58.9% of income arising from agriculture in Ireland (Matthews, 1982). This support is also significant for the economy as a whole. In 1985, direct aid to Irish agriculture from the FEOGA funds was equivalent to 5.8% of GNP (NESC, 1988). Taking a more global perspective, OECD statistics for the period 1979 to 1981 reveal that agricultural policies

provided 93.2% of the Gross Value Added in agriculture in the EC, 104.3% in Japan and 42.1% in the US (OECD, 1987). It is clear, then, that the level of agricultural intervention is substantial.

A number of invisible costs arising from this support obtain. According to the WALRAS model, the distortionary impact of subsidies represents a cost to the OECD countries of US\$72 billion every year (Winters, 1990). This figure takes no account of the costs borne by countries outside the OECD, whose agricultural balance of trade is affected. The exact effects of the resulting misallocation of resources are difficult to measure, but it is arguable that they represent a substantial burden on the economies involved.

Despite such degrees of support, the farming sector still has to cope with persistent problems. Income levels appear to remain well below those of other sectors, and some studies indicate widening disparities within the sector. In addition, fundamental economic factors are unfavourable. As the economy evolves, agriculture's position in the development process becomes relatively less significant. It's contribution to GDP, exports and employment declines. This is because technological progress leads to a growth in supply that outstrips demand. Foodstuffs tend to have low income elasticities, and hence as the economy develops, expenditure becomes progressively more concentrated on other goods. This treadmill process forces down agricultural prices over time, causing the farm sector to remain at an income disadvantage to the rest of the

economy (Hill and Ingersent, 1982). The minimum viability threshold of farms is constantly rising, and profitability ever more difficult to attain.

Yet in many cases, subsidies for the farming industry appear to exacerbate rather than mitigate the problems which impinge. Dependence on support, over-production and inefficient use of resources are encouraged, the inevitable consequences of an effete system. Despite this fact, organisations such as the EC continue to provide support for the farming industry. In an effort to resolve this paradox, the next section examines in more specific detail the justifications for such a policy that have been forwarded.

A rationale for farm supports

Agriculture has been ascribed a vital role within the economy. Policies are engineered to protect agriculture from "going to the wall" because it is seen as an industry that is indispensable. What Winters terms "Non-economic Objectives" derived from social values are of paramount importance (Winters, 1990). In other words, support is a social good. One example of this is the use of agriculture's integral links with the environment to claim that support for the former takes care of the latter.

While few would object to the goals of looking after our planet, providing sufficient food or helping the disadvantaged in society, it does not automatically follow that supporting agriculture will help us to achieve them. The costs and benefits of alternative policies must be examined before a conclusion can be reached. The following sub-sections delineate three specific justifications for farm supports, and ask if an alternative policy would be more effective in achieving the desired objectives.

The need to ensure food security

The aim of food security is simply to

ensure that *enough* food is supplied and that this supply is *secure*. In practice, this is often equated with self-sufficiency. Producing what you need yourself is seen as the best way to avoid a food shortage. Supporting agriculture aims to facilitate this. The degree of protection involved is considered justified if the nation's food supply becomes less vulnerable.

However, a less vulnerable food supply requires greater *stability*. Cyclical patterns in the amount supplied and the consequent price fluctuations have to be mitigated, as these de-stabilise the domestic food market, altering the quantity available at a 'normal' price. It may be contended that price supports militate against stability. If supply shocks occur within a domestic system insulated from world trade, the global market cannot be used as a cushion. A case in point is the 1974 UK sugar beet shortage (Hill and Ingersent, 1982). As Ritson (1980) notes: "With trade, domestic markets will be much more stable than if individual country markets are isolated from each other."

The first element of food security is *economic security*. This embodies the idea that a nation be always able to afford sufficient food. Defining sufficient is difficult, but average intakes in the OECD economies are more than adequate. A healthy diet could be supported on less food than at present. Yet supports which *raise* the prices of food must be questioned. In the long-run, protecting agriculture makes the food supply less affordable, and economic security more difficult to attain.

The more emotive element of food security is *strategic security*. This means that the nation should always be able to get enough food, even in an emergency. As already noted, the world agricultural market is best able to absorb fluctuations in supply as gluts in some areas can be offset against shortfalls in others. An economy is less likely to face sharp supply restrictions if

agricultural trade takes place freely. However global shortages do occur. Should world prices escalate, the industrialised economies are still best placed to acquire that food available. It is highly improbable that the world's richest countries would be priced out of the food market.

An emergency could take the form of a trade embargo. But it is unlikely that food would be unavailable from *every* external source. For example, the USSR managed to import grain during the 1980 US Grain Embargo (Winters, 1986). Self-sufficiency would be a help, but not absolutely necessary. The crisis most feared is another WWII-type scenario. Yet it is arguable that a modern war on that scale would follow the same "conventional" pattern.

In this light, increased self-sufficiency appears to be neither an effective nor affordable insurance policy to secure food security. This conclusion is buttressed when it is remembered that complete self-sufficiency is extremely costly to achieve. Self-sufficiency may be only skin deep due to heavy reliance on imported farming inputs (machinery, energy sources, fertilisers etc.). EC food surpluses suggest productive independence, but, in an emergency, production would suffer as input supplies were restricted.

Other more palatable alternatives exist. Strategic stockpiling of food would aid stability and protect against extreme situations. Trade agreements could be entered into in order to ensure a steady and affordable supply of food imports. The costs of such policies would be less extensive than those of general support to the domestic farming sector. In sum, food security has been used as an excuse for farm support but the two are not necessarily complementary. The need to provide a secure food supply does not automatically mean that agriculture should be protected.

The need to support farm incomes

The issue of whether farmers are disadvantaged is moot. The farming community argues that this is the case, yet the PAYE sector still bears many grudges towards it for ostensibly not sharing a fair proportion of the tax burden.

A number of problems arise in obtaining an accurate measure of the disparity between farmers' incomes and those of the non-agricultural sector. The efficacy of average farm income figures is compromised by the existence of wide differentials in actual agricultural incomes. A further caveat to be borne in mind is that any examination of farm incomes must necessarily take account of farmers' wealth (Hill, 1989). Nevertheless average figures furnish a rough guide. The indications are that average farm income is generally significantly lower than average non-farm income. In addition, it is argued by some that, while farmers may be rich on paper, they are less well able to convert their assets into a flow of income than are workers in other sectors. Running down their asset base involves reducing their farming activities, thus cutting off future income streams. The ease with which the intrinsic value of their assets can be realised is also questionable, if their uses outside agriculture are limited.

The question at issue concerns the relative efficiency of farm supports as a means of mitigating this income disparity. It can be contended that measures to ease the conversion of assets into income would be less regressive and more efficient. Policies aiding the working of the agricultural capital market and providing credit facilities would help farmers realise their net worth - addressing the actual market failure rather than the symptom.

The farm income problem is a result of resource misallocation, rural poverty and structural deficiencies. General support to farming causes further distortions and does

not deal with the roots of the problem. The reason for this is twofold. Firstly, the farmer/non-farmer dichotomy is misleading. Rich farmers do exist. Poor farmers are poor for reasons quite similar to those of the urban poor. It is the culture of poverty that must be addressed. Secondly, "rural" should not be equated with "agricultural". Preserving or ensuring a healthy rural community is not the same thing as propping up agriculture. Infrastructural aid and specific schemes are of far more benefit to the fabric of the rural community, and to those actually in need.

The fact that agriculture is in decline is not the fault of the farmers but they cannot be shielded from the necessary adjustments forever. In the long run, the farm sector cannot provide a viable way of life for as many as policies have attempted to force it to. The need to support farm incomes is best interpreted as a need to redress fundamental problems relating to farm incomes. Farm supports constitute an ineffective means way of doing this, and indeed can worsen the situation.

The need to preserve the rural environment

While the idealised rural environment may be dotted with picturesque farms, increased agricultural activity can and does have detrimental effects on the landscape. Visual amenity can be impaired by the growth of monoculture and the eradication of natural (or traditional) features, such as hedgerows, woodlands and marshes, in order to make room for larger, more easily worked holdings. Farm support favours agribusiness, whose concerns are not identical to those of the Green Lobby. As was noted in a recent OECD (1989) report, methods which encourage the "overuse of soils and chemicals, the pollution of both water resources and foods with these chemicals and the degradation of the environment" have been latently

encouraged.

Yet since agriculture's future is integrally linked with that of the environment, interests can and should be made to coincide. According to Viatte: "The overriding question with regard to the environment is how to internalize in decision-making the externalities associated with agriculture"(1990:299). Despite Coase's Theorem, the market cannot always find its own way to cope with externalities and intervention is necessitated. Environmental policies should aim to equate market costs with the true social costs, something which farm supports fail to do. In addition, incentives to over-produce should be removed. The decoupling of farm support and farm output would go some way to achieving this.

Agriculture does not deserve special treatment on the grounds of its role in preserving the rural environment. The special treatment it does require should be designed to prevent and limit its abuse of the rural environment. This must not be equated with farm support.

Conclusion

This paper has discussed the nature and efficacy of farm supports. Some of the more prominent difficulties facing the farming sector were discussed in section one, as was the extent of agricultural support provided to mitigate these problems. Section two discussed specific justifications for intervention, including the necessity to protect food security, farm incomes and the rural environment. It was contended in each case that other more efficient alternatives exist, and that intervention cannot therefore be legitimately countenanced on the basis of these arguments.

The conclusion must be that there is a need to re-examine the systems of farm supports that have been put in place. Policy-makers may simply be bowing to the

pressure of a small but influential lobby group in maintaining these systems. The case for agricultural support is not axiomatic, and should not be regarded as so.

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