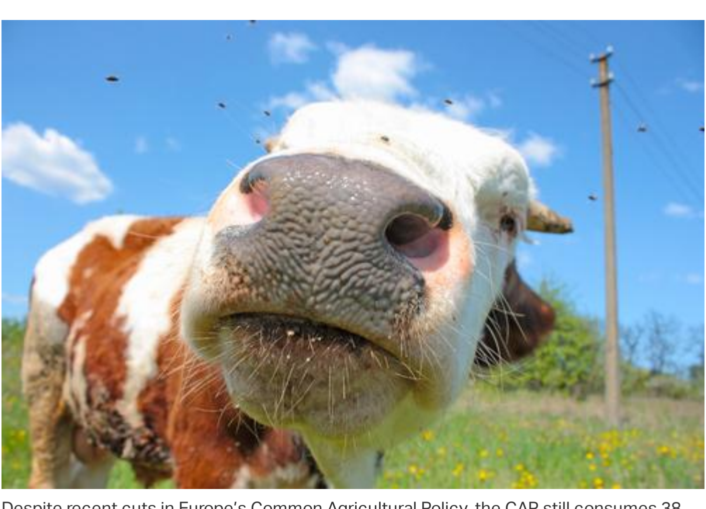
Europe's 'Sacred Cow': Should The Common Agricultural Policy Be Culled?

MARCH 12, 2013 • AGRICULTURE • BY DAVID SMITH



Despite recent cuts in Europe's Common Agricultural Policy, the CAP still consumes 38 percent of the EU budget and sustains a romantic vision of agriculture that is out of kilter with the highly technological requirements of modern farming.

Europe's controversial €50 billion Common Agricultural Policy (CAP) is sustained by absurdly romantic illusions about farming, says Dr Sean Rickard, a former chief economist of the U.K.'s National Farmers Union.

Dr Rickard, who also used to be a U.K. government advisor on farming policy, believes: "governments all over Europe have bought into the romantic vision of farming being about someone in a smock cuddling a pig."

"Somehow farming groups have managed to convince them that the countryside would be greatly diminished in productivity, visual amenity and jobs would if subsidies were removed… This illusion is supported in the U.K. by major public figures, from Prince Charles, to celebrity chefs, to Sir Paul McCartney. Farming has got under the skin of governments and they are frightened of the powerful farming lobbies," he said.

This romance of small-scale farming is nowhere more embedded in the national consciousness than in France, who is Europe's largest farm producer. France is the biggest beneficiary of the CAP, receiving around 20 percent of all EU farm subsidies.

Farming's importance in France runs deeper than agriculture's tiny 4 percent share of the workforce, or its 3 percent share of GDP. It has a special place in the French imagination, tied to the country's reverence for good food and traditional ways of life. French politicians are obliged to condescend to the farming lobby. Every year ministers flock to the Paris Agricultural Fair to pose for photographs alongside bulls and sheep.

After the recent European negotiations over the CAP, President François Hollande gloated that France had maintained its farm subsidies while other nations had seen theirs cut. Of the major European leaders, only the U.K.'s David Cameron argued vociferously for a major reduction in the CAP, clashing with President Hollande.

The upshot of negotiations was that the CAP took a 13 percent hit, but farm subsidies will still consume 38 percent of the EU budget for 2014-2020. This amounts to €363 billion (US$485.7 billion) of the €960 billion total, or €50 billion a year. Although this is a significant reduction on the €417 billion earmarked for farming under the current seven-year budget to 2013, Sean Rickard would like to see the CAP abolished altogether.

"I wouldn't do it overnight and it's a fantasy policy as there's not a hope in hell of it being abolished. But we are sitting in a Europe desperate to grow, mired in terrible austerity," he said. "When we signed the Lisbon Treaty two years ago we agreed to focus more on areas offering growth, such as information technology and communications. But the one sacrosanct area of the budget remains agriculture, which means cuts in other areas which might bring growth."

The consequences of abolition, Rickard believes, would be that around a third of European farmers would leave the industry. These would overwhelmingly be small farmers.

"That would be a good thing as subsidies keep thousands of inefficient small farms in business. There are big economies of scale in farming and the larger farms would take over the smaller farms in the fertile lowlands and raise productivity. They'd also have money to invest in modern technologies, which will be vital to producing food more sustainably in the future."

Rickard said that most small farms would not be able to adapt to the realities of farming in the modern world if not for the support of CAP subsidies.

"It's not fanciful to say that in the future it will be about people in white coats checking information. The truth is that smaller farms are more likely to have unkempt ditches, or fences falling down, or ramshackle buildings, or rusting hulks, than the larger ones. Most of the environmental damage and run off into rivers is a consequence of the bad management and lack of investment at hard-up farms. These small farms are often passed down from father to son and the recipients usually don't have the skills or funds needed in the modern agricultural industry," he said.

Professor David Harvey, from the Newcastle University School of Agriculture, also believes that the disappearance of thousands of European small farms would simply be a natural process of evolution. Harvey said that a preponderance of small farms was characteristic of developing economies.

"Once the economy is developed there's a shift out of agriculture into other industries. The proportion of income spent on food diminishes so (fewer people can earn a full-time living. Socially, that can be a pretty traumatic shift. But it's a natural process. Agriculture becomes a declining sector and incomes fall relative to elsewhere in the economy.

"The people who want to get on in life get out – which is what they should do – so that agriculture is left to a large extent with the less able. There are always some go-ahead entrepreneurs, but they get bigger. There's also room in the market for some small farms which diversify and differentiate, but far fewer than there would be without the CAP."

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The History Of The CAP

Professor Harvey said the CAP was justified when it was first introduced at the 1957 Treaty of Rome. At that time, agriculture formed a much larger part of the economies of the six original members of the European Economic Community (EEC) - France, West Germany, Italy, the Netherlands, Belgium and Luxembourg. In France, agriculture's share of GDP was around 30 percent, whereas it has now dropped to 3 percent. The percentage was almost as high in Italy back in 1957.

Originally, the CAP set a "price floor" for agricultural commodities produced in the EEC and it became a cornerstone of EU policy. Other countries adopted it when they joined what became the European Community (EC) and is now the European Union (EU), beginning with Denmark, Ireland and the U.K. in 1973 and Greece in 1981.

But the CAP attracted a lot of controversy over the years. The key problem was that stabilising agricultural prices at high levels encouraged Europe's farmers to increase output. By the early 1980s, the CAP's financial incentives for food production and investment led to massive overproduction, producing so-called "butter mountains" and "wine lakes" which often had to be resold at a loss on world markets. There were also frequent accusations of CAP corruption and fraud, and in the early 1980s, the cost of CAP was seen as threatening to destabilise the whole community.

Another criticism was that CAP was indirectly causing environmental damage by encouraging farm "modernisation". This meant an increase in the use of agricultural chemicals and intensive farming methods. Some even blamed the CAP for practices leading to a series of food safety scares in the 1980s and 1990s, chiefly BSE (Mad Cow Disease).

The CAP has been reformed to address criticisms. Most significantly, in March 2003, the "Single Farm Payment" replaced direct payment schemes. The new allowance was linked to compliance with standards of food safety, animal rights and environmental concerns. The key idea was to break the link between subsidies and production so farmers produced for the market and not for financial support.

More problems for the CAP came with the enlargement of the EU in 2004, which strained the budget. France and Germany insisted on a deal to freeze CAP spending between 2006 and 2013, and phase in payments to the members. The accession states were angry, and secured additional payments.

Removing The CAP?

Professor Harvey argues that the CAP is more justified for these developing economies, which are still heavily agrarian.

"There's a real political need for the CAP in Central Europe in helping them make the transition from an agrarian to a modern, commercial industrial service economy, but in Western Europe it encourages a huge dependency culture," he said. "It's really like our appendix. We've got it because we used to need it, but we don't any more and it's arguably doing us more harm than good."

Harvey also said the CAP cemented the idea that it was a government's responsibility to make sure there is enough food, but governments are incompetent at delivering on that.

"They don't have the capacity. The idea that we need an army of bureaucrats to organise farmers and consumers is nonsense. Most modern farmers recognise that the single farm payment system is obsolete and is damaging their ability to adapt to changing circumstances. But there's no point in jumping up and down and insisting it is stopped, if someone is stupid enough to keep paying it."

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One of the most absurd aspects of the CAP is that the subsidies have inflated land prices to such an extent that it has negated any economic benefits to the farmers. "Land values have rocketed. Studies show that somewhere between 40-60 percent of money given to farmers has been capitalised into land values. In the U.K., land prices have risen by more than 500 percent in the past 20 years," said Dr Rickard.

Another criticism of the SFO is that it is based on the number of acres on a farm, so the money disproportionately goes to the richest landowners. The Guardian journalist George Monbiot has described farm subsidies as, "the 21st century equivalent of feudal aid: the taxes medieval vassals were forced to pay their lords for the privilege of being sat upon. The single payment scheme, which accounts for most of the money, is an award for owning land. The more you own, the more you receive."

Monbiot continued: "Every taxpayer in the EU, including the poorest, subsidises the lords of the land: not once, as we did during the bank bailouts, but in perpetuity. Every household in the U.K. pays an average of £245 a year to keep millionaires in the style to which they are accustomed. No more regressive form of taxation has been devised on this continent since the old autocracies were overthrown."

A BBC documentary in 2012 supported Monbiot's assertions. The programme makers requested details of the number of landowners claiming a slice of the U.K.'s £3.5 billion subsidy. Privacy rules mean that the names of most recipients are not known, but the general data showed that 889 landowners received more than £250,000. Of those, 133 were given more than £500,000 and 47 of those were given more than £1 million in subsidy. Among the biggest recipients were the Queen and Prince Charles.

The system also benefits the Roman Catholic Church through many of its ancient abbeys and convents in Italy, Spain, Austria and France. Another stream of money goes to big multinational firms, which can collect subsidies from different EU nations, as long as they operate in Europe. One of them is Cargill —the largest privately held company in the US. Cargill collects millions of euros in subsidies from about eight EU countries.

Rickard agrees with Monbiot that the wealthy benefit disproportionately, but he says it would be madness to take the money away from big farms and give it to the small ones. "They'd be better off for year or two then the price of land would rocket as they spend more money on land. After a short time, we'd be back to where we are today," he said.

Instead, Rickard advocates gradually phasing out the CAP and spending the money instead on developing more lucrative businesses in rural areas.

"We can be certain that in 10 years fewer people will be employed in farming than today. To create jobs in rural areas which allow people to bring up families, buy houses, and have salaries more like urban counterparts, we should not put taxpayers money into farming. We should use it to help establish new businesses. For example, take a disused church in a village and allow it to be taken over by a marketing company, using broadband. They could quickly employ half a dozen people, which is more than a lot of farms. Wages will be higher with better prospects for growth."

Rickard would also take a lot of the responsibilities for the environment away from farms by using some of the money saved to establish a dedicated rural development policy for Europe.

The removal of the CAP, he says, would ultimately be beneficial to the EU's farming industry. In New Zealand, for example, the removal of subsidies by the Labor Government in 1984 had a dramatically positive effect. This was a striking result when one considers that New Zealand's economy is a large agricultural exporter. The subsidies accounted for more than 30 percent of the value of production before the reforms.

"They had about three or four years of tough times, then the industry boomed, helped by the proximity of Asia. All studies confirmed that the industry became more productive," he said. "Once farmers realised they could not rely on government any more they began to think how they could help themselves. For example, they built Fonterra, a huge and powerful cooperative of dairy farmers. They also launched new industries, such as viticulture, which they'd never had before."

Professor Harvey has a different solution to the problem of the CAP. He advocates giving farmers a lump sum for the entire period 2014-2020 based on their acreage. But at the end of the period there would be no more subsidies.

"To get rid of the subsidies in one fell swoop would have a disastrous effect on farms in Italy, Greece and Spain, where the economies are struggling. But the lump sum payment would give farmers scope to make adjustments. But after that, all bets would be off," he said.

By David Smith, EconomyWatch.com

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