

## [The rising price of farmland](#) [1]

Written by [Tim Worstall](#) [2] | Sunday 20 April 2008



A report in *The Times* on how rural land values are [soaring](#) [3]:

*Farmers have seen their land values soar by 30 per cent in a year. With markets in turbulence and surging global food prices making agriculture profitable, land is now seen as a safe haven for cash and pension funds.*

*City institutions, led by Blackrock, UBS and Schrodgers, are setting up funds to invest in land and agribusiness. Other hedge funds are exploring the market. They are in competition with British farmers and businessmen from Ireland, Denmark and the Netherlands, where land is even more expensive.*

Well, yes, but there's something else going on as well, it's not just the usual interaction of supply and demand. There's subsidy as well.

The Common Agricultural Policy (spawn of the very devil that it is) has recently undergone some changes. Instead of subsidy being based upon production, it is now linked simply to the acreage (actually hectareage but forgive this traditionalist his little pleasures) of land held. It's not quite in one leap though: over a period of years it moves from the historical amount based on past production to the flat per acre payment. That change is having its obvious effect: previously you had to actually farm the land, get something out of it. Now you just have to own the land to get the cheque.

That obvious effect being of course that the price of land will rise, as David Ricardo would have pointed out. The subsidy is now simply an additional rent to the property, one which will simply feed through into increased capital values. It's a little difficult to work out exactly what the subsidy actually is (come on, this is the EU we're talking about) but £100 an acre or so looks like a reasonable estimate. Taking a 5% interest rate (or return upon capital, your choice) we would thus expect the subsidy to increase the value of land by some £2,000 per acre (ignoring the effect that the earlier subsidy system had on such land).

**£3,500** Price of an average acre of farmland a year ago

**£5,000** Price that an acre is close to fetching today

Ah. So, that's what the CAP does, increases the wealth of those already owning land and making future farmers require more capital to enter the business. Not, perhaps, the desired outcome. Which brings me to my perpetual and oft asked question about the European Union itself.

Can we leave yet?

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