

Adam Smith Institute
Omega Report

AGRICULTURE POLICY



Adam Smith Institute

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THE OMEGA FILE
AGRICULTURE

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FOREWORD

The Adam Smith Institute's **Omega Project** was conceived to fill a significant gap in the field of public policy research. Administrations entering office in democratic societies are often aware of the problems which they face, but lack a well-developed range of policy options. The process by which policy innovations are brought forward and examined is often wasteful of time, and uncondusive to creative thought.

The **Omega Project** was designed to create and develop new policy initiatives, to research and analyze these new ideas, and to bring them forward for public discussion in ways which overcame the conventional shortcomings.

Twenty working parties were established more than one year ago to cover each major area of government concern. Each of these groups was structured to include individuals with high academic qualification, those with business experience, those trained in economics, those with an expert knowledge of policy analysis, and those with knowledge of parliamentary or legislative procedures. The project as a whole has thus involved the work of more than one hundred specialists for over a year.

Each working party had secretarial research and editorial assistance made available to it, and each began its work with a detailed report on the area of its concern, showing the extent of government power, the statutory duties and the instruments which fell within its remit. Each group has explored in a systematic way the opportunities for developing choice and enterprise within the particular area of its concern.

The reports of these working parties, containing as they do, several hundred new policy options, constitute the **Omega File**. All of them are to be made available for public discussion. The **Omega Project** represents the most complete review of the activity of government ever undertaken in Britain. It presents the most comprehensive range of policy initiatives which has ever been researched under one programme.

The Adam Smith Institute hopes that the alternative possible solutions which emerge from this process will enhance the nation's ability to deal with many of the serious problems which face it. It is hoped that, being free from partisan thinking, they will be accessible and stimulating to all sectors of opinion. The addition of researched initiatives to policy debate could also serve to encourage both innovation and criticism in public policy.

Thanks are owed to all of those who participated in this venture. For this report in particular, thanks are due to Richard Body, Richard Howarth, Robert Robertson, and Linda

1. THE COMMON AGRICULTURAL POLICY

INTRODUCTION

There have been many comprehensive systems of government support for agriculture in operation throughout the developed countries since the second world war, of which the EEC's Common Agricultural Policy (CAP) is perhaps the most monolithic. These systems are the successors of the hasty protectionist schemes introduced in the early 1930s after a period of relatively free trade that extended back to the 1870s and was interrupted only by the first world war.

All support policy has had the basic objective of raising and/or stabilizing farm incomes above their free market level. So there have been trial periods in modern times of anything from a quarter to half a century in which to test its effect on agriculture and its general economic consequences. The results have been far from impressive: yet, despite its lack of success for agriculture and its heavy economic cost, nearly all farmers and governments remain wedded to agricultural policy and are prepared to defend it tenaciously, deaf to reasoned argument. The political strength of the agricultural lobby (eight million farmers in the EEC) is the main explanation. Farmers, long insulated from the pressures of market forces, have been able to persuade governments of the electoral dangers of reducing the insulation. Indeed, agriculture has been the major exception in the general process of trade liberalization which has gone on since the second war. As Professor Barry Johnson (1) put it 'the protection of domestic producers by tariffs and especially by import quotas, subsidies, and other governmental assistance is rampant and has been perceptibly increasing over the post-war period'.

Anyone proposing a reduction in, or abolition of, agricultural support should therefore not underestimate the depth and ferocity of the opposition to be faced. But we believe that the CAP is so ineffective, so costly, and so damaging that if radical modification to it is not achieved rapidly, then it should be abolished. Obviously such a step could not take place overnight and we suggest a phased withdrawal by Britain over a number of years during which minimum national policy measures, concerned principally with the prevention of dumping and the maintenance of health, hygiene, and safety standards, could be introduced.

Our reasons for adopting such a radical and difficult stance relate to the adverse consequences of the CAP, both within and outside agriculture, which are summarized below.

(1) Barry G Johnson, 'On Demolishing the Barriers to Trade', Rebuilding the Liberal Order (London: Institute of Economic Affairs, Occasional Paper 27, 1969), p.15.

Within agriculture

Since agricultural policy in general and the CAP in particular are intended to benefit farmers it is appropriate to consider them first. The CAP system is aimed at assisting farmers' incomes by raising their revenue through prices supported by intervention buying, import levies, and export subsidies at levels considerably above - sometimes double or treble - world market prices. Such price support is wholly indiscriminate and, being related to output, benefits the large producers much more than the smaller ones. Moreover, since political factors determine the relative support prices of farm products, those producers with the most political clout - especially cereals and dairy producers - receive the greatest support; and those with little political muscle receive the least. They may even be affected adversely by the policy if their input costs (such as cereals) are raised more than their output prices, an example being the current difficulties of British pig farmers.

Regressive nature. The system is therefore regressive: the least needy usually receiving the most, the most needy receiving the least. This consequence was documented in detail over ten years ago by Josling and Hamway (1). Using 1969, figures they showed that under the old British deficiency payments system, 'not only did higher income farmers get a higher proportion of such payments, but that proportion was higher than their share of income'. Under the EEC system, the tendency for farm policy to increase income inequality in agriculture is even greater. The richest quartile of farmers who without support would receive forty one per cent of total farm income now receive fifty per cent of the income. If support prices are pitched at a level aimed to provide a tolerable income for small poor land farmers, as they have been, the payments to the large, good land farmers become vast. Such a wasteful and regressive system would be hard to defend even if it did benefit farmers generally.

Little effect on incomes. Although the CAP has implied a very large and increasing resource transfer to farmers from its various subsidies and price distortions ('producer gain'), estimated by the Institute for Fiscal Studies at some £1,900m for British farmers at 1980 prices (2), this has not been reflected in farmers' net incomes. Aggregate farming income in money terms, which was £682m in 1972, rose to a peak of £1,269m in 1977, fell back again to £1,027 in 1980, rose to £1,275m in 1981 and again by a spectacular 45 per cent to £1,849m in 1982. But in real terms (adjusted by the RPI), farming income of £682m in 1972 would have had to have risen to £2,632m in 1982 to have

(1) Josling and Hamway, Burdens and Benefits of Farm-Support Policies (London: Trade Policy Research Centre, March 1982).

(2) A W Dilnot and C N Morris, The Distributional Effects of the Common Agricultural Policy (London: Institute of Fiscal Studies, in publication).

remained constant. In fact, it had fallen by 30 per cent, having risen only during the commodity boom of the mid-1970s.

However, to gain a truer picture, the crude measure of aggregate farming income should be substituted by real farming income per full-time farmer, because the number of farmers amongst whom the income is shared has fallen steadily (by one or two per cent per year over the post-war period). Using this measure over the post-war period, one finds that farmers' incomes remained virtually static throughout the 1950s and 1960s, then rose to a peak in 1973 (the high money incomes of 1977 and 1978 being completely eroded by inflation), fell away again more severely in 1979 and 1980, and returned to a level equivalent only to that of 1970 in 1982.

Reasons for policy failure. The income experience of British farmers is paralleled by that of farmers in other European countries as well as in North America. Even the vast resources of the EEC and the US government can do little to raise the real or relative incomes of farmers as a whole over time even if they temporarily make millionaires of a few. Why is this so? First, higher prices prove such an incentive to increased production, along with rapidly increasing technological improvements, that the excess of supply growth over the highly-priced and income-inelastic demand growth for food forces down world market food prices relative to the prices of other goods and services. The cost of price support therefore increases rapidly and to such an extent that governments cannot afford to raise their support for farm products as rapidly as other incomes improve. By one means or another, real support prices are allowed to be eroded. In real terms, producer prices in the UK reached a peak in 1947 at a time of international food shortage, fell to their 1936-38 level in 1962 and have never been above it again even during the 1970s commodity peak. The laws of supply and demand, as always, have triumphed over government intervention in agricultural prices, disguised though this fact may be by still very high support levels relative to world prices.

Second, even when farmers' incomes do increase through improved productivity or through increased government support, they soon tend to move back to a 'normal' or 'natural' level, which in Britain, with a good agricultural structure, has tended to be around parity with average incomes in other sectors, but which in most West European countries except Denmark and Holland and in the United States is around half the average. This arises from the tremendous demand to farm on a limited and decreasing supply of land by existing farm families and new entrants, who are willing to sacrifice considerable cash income (in other occupations which they might have chosen) in order to enjoy the psychological attractions, taxation benefits, and other advantages of farming. Thus whenever farming revenues rise, they are soon offset by the bidding up of land values, interest charges and rents, and the prices of other agricultural inputs. This point is well illustrated by the Institute of Fiscal Studies' figures for 1972 to 1980, which show that while producer

gain rose by 146 per cent over the period, land values rose by 111 per cent. Over the same period, the MAFF index of prices for agricultural inputs rose by 214 per cent, while the index of product prices rose by only 167 per cent. Other evidence is provided by Richard Body (1) who shows that although prices generally have gone up by fifteen times since 1939, farm land values have increased by eighty times.

The main beneficiaries of agricultural support have undoubtedly been landowners who held land before the advent of the policy, since they have experienced a substantial capital gain, although a very low annual return, on their investment. But the bulk of farmers have not gained from the system, while new entrants have been deterred and the pattern of land holding has been ossified. Long experience shows the validity of the balloon theory of agricultural support. It is impossible to inflate one side of a balloon without inflating the other equally. Subsidies to agriculture, of whatever form, will be offset by increased input costs.

Outside agriculture

If the benefits of policy to farmers are disputable, the burdens on the rest of us are indisputable. Already well known are the alarming increases in the EEC's farm budget and the major British contributions to it (so far largely offset by special rebates), but these should not be exaggerated because they are tiny in relation to GNP (less than 1 per cent) and to total government expenditures. Far more serious are the economic costs, the diversion of resources, and the inequity of the burdens.

The total cost of support under the EEC system is far less easy to disentangle than that of the former British deficiency payment system which placed the vast majority of the burden on the taxpayer. Under the CAP, consumers lose out from the higher EEC prices from whatever source they buy their food. These losses are equal to domestic food consumption multiplied by the difference between EEC and world prices, and are equivalent to the gains by producers. Such price support is estimated (2) to have cost British consumers and benefitted British farmers by £1,570 in 1980/81. Consumers can also be argued to lose by the reduction in consumption of farm products at EEC prices relative to consumption at world prices: but given the very high price inelasticity of demand, the loss is likely to be small. Although farmers gain the additional support given by the taxpayer in direct grants and subsidies, some £358m in 1980/81, the net cost to the taxpayer of the EEC is more complex. It comprises our VAT

(1) Richard Body, Agriculture: the Triumph and the Shame (London: Maurice Temple Smith, 1982)

(2) A W Dilnot and C N Morris, The Distributional Effects of the Common Agricultural Policy (London: Institute of Fiscal Studies, in publication).

contributions and revenue from the CET handed over to Brussels less expenditure refunded to us on agricultural export subsidies (net of levies), expenditure on intervention, storage, and structural reform, less receipts from other common policies (the social fund, etc.), less any special budgetary rebate. This net figure is currently running at some £700m pa, the bulk of it required to finance the CAP.

Total cost. More difficult to quantify is the total economic cost, that is, the opportunity cost of the diverted resources outlined above plus the opportunity cost of additional resources attracted into agriculture as a result of support policy. Richard Body (1) attempts some estimates of resource diversion into agriculture and, although some of his individual figures are open to debate, his conclusion, that the grand total comes to tens of billions of pounds over the years, cannot be disputed. How much greater would have been the return had those billions been invested elsewhere according to market demands, no-one can say, but the income and growth foregone by the general population must have been enormous.

But it is the inequity of the burden of this general loss which is the most telling indictment of farm policy. It has not been a case of rich townspeople helping poor country folk, but rather of Robin Hood in reverse. High food prices bear most heavily on the poor, because poorer people spend a higher proportion of their income on food. Josling and Hamway (2) predicted that under the EEC system, households in the lowest quartile of post-tax income, who received 11 per cent of total income, would pay 13 per cent of EEC support costs, while the richest quartile, with 43 per cent of the income, would pay only 32 per cent of the costs. EEC policy would therefore further aggravate the perverse effect of British policy in making poor urban households subsidize richer farm households and lead to an implied transfer of £254m per year from urban families earning below £1,850 a year to farmers earning above that figure.

Cost to consumers. A slightly different approach in recent work at the Institute of Fiscal Studies (3) has updated and strengthened this argument. By comparing them with world prices, Dilnot and Morris have transformed EEC farm prices into 'tax rates' on final commodities. It appears that those commodities which bear the most heavy support ('tax') are those which the poor buy proportionately more of, for example, bread and milk

(1) Richard Body, Agriculture: the Triumph and the Shame (London: Maurice Temple Smith, 1982).

(2) Josling and Hamway, Burdens and Benefits of Farm-Support Policies (London: Trade Policy Research Centre, March 1972).

(3) A W Dilnot and C N Morris, The Distributional Effects of the Common Agricultural Policy (London: Institute of Fiscal Studies in publication).

products - which increases the regressiveness of a 'tax' that was already bound to bear most heavily on the poor. Thus on 1977 figures, the CAP farm prices imply an overall tax of 4.5 per cent on all households in Britain, which ranges from 6.6 per cent on incomes up to £1,000 down to 2.9 per cent on incomes above £10,000.

The regressiveness of the impact of the CAP also applies for a large extent between states. Italy and Britain, at the bottom of the EEC income league (only Greece and Ireland being lower), have been major net contributors to the CAP and thereby to the EEC budget as a whole. France, Belgium, Holland, and Denmark, with much higher incomes, have all been major net beneficiaries. Germany, with the highest income, although long a major net contributor, would have been contributing less than Britain were it not for the special rebate on our contributions gained in 1980 after long and bitter wrangling.

The CAP is, in our opinion, contrary to the spirit of the founding fathers of the EEC, contrary to the rules of GATT, ineffective in helping those it is intended to help, expensive not only budgetarily but even more so in terms of total economic cost, regressive and inequitable in every aspect, unpopular except with farmers and bureaucrats, seemingly incapable of reform, endlessly time-consuming to the detriment of more important matters, and persistently undermined even by the French, its greatest supporters. Yet it has lingered on, reprieved by the temporary food shortages of 1972-75, providing a constant supply of ammunition for anti-marketeters. Many people believe that it is time Britain took the lead in a campaign to 'scrap the CAP'.

The words of the Treaty of Rome are that 'the Common Market shall extend to agriculture and trade in agricultural products', which in our opinion should define the limits of a common agricultural policy. If an individual government wishes to support its farmers, it is better to do so selectively by direct income support from its own consumers and taxpayers, without excessively distorting trade, and let it persuade them to foot the bill.

2. AGRICULTURAL MARKETING

INTRODUCTION

In order to replace the present institutional costs on agricultural marketing, we suggest that it is worth examining strategies to open agricultural marketing to the operation of the market. This will require mechanisms to dismantle government management of the market, to encourage technical innovation, and to establish futures markets. It will also involve efforts to free EEC trade in agricultural products, and subsequently to free world trade in agricultural products.

The argument for managed marketing has always been that inelastic demand for agricultural products exists alongside a much less inelastic supply of them. In addition, the length of time it takes to raise agricultural products, measured in years, admits the possibility of major errors in investment: a rising market for wheat, say, may cause farmers to plant wheat in great quantity, only to find that this increased supply comes onto the market at a time when, a year later, demand may be less. This is the 'agricultural problem'. It leads to wide potential price fluctuations and risks to the producer.

In most industries of this nature, active futures markets serve to stabilize prices and production. In agriculture, however, the alleged solution has been government intervention, by intervention buying, price support, supply control, etc. None has worked, and indeed the intervention itself has conspired to make futures markets largely unworkable. But if the benefits of unfettered production and exchange are to be enjoyed, a radically new look is needed. Management of the market would have to be replaced by the free operation of the market and the application of technical innovation to both supply and demand.

Supply. To back-pedal on technical innovation, as is argued by some, would be disastrous. The strength of UK agriculture now is its advanced technology, but the tendency is to direct this to maximum production, rather than what the consumer wants. Without government intervention in support, technology would be directed towards adjusting the supply to market requirements, e.g., in the sophistication of production in terms of timing, quality, and distribution.

Demand. Because of the high level of government interference in the market, the time-lag in the transmission of demand signals to the supplier is lengthened and their nature is confused. In this area also, technical innovation is imperative. Market demand signals must be able to be transmitted to the producer as efficiently as possible.

Only in these ways can the 'agricultural problem' of inelastic demand and less inelastic supply be tackled. We must remember that the world is advancing: wide fluctuations can be damped down

by other means than by interfering with the market mechanism. Today's technology and economic sophistication is an advantage that Pharaoh didn't have: for example, a starch industry could assist with potato surpluses. And there is no reason why futures markets should not develop to cope largely with the problems of risk.

ORIGIN AND FUNCTION OF MARKETING BOARDS

The concept of marketing boards appeared in the early 1930s, following the great depression, which hit agriculture particularly hard. Boards were set up for various commodities with the idea of securing total control over supply. The aim in each case was to manage the market, raising prices to consumers where necessary in order to maintain producer incomes, increasing or cutting production according to national demand. The marketing board system continued with varying degrees of effect until 1973. Some failed totally, such as the Egg Marketing Board and the Tomato and Cucumber Marketing Board. Others continued. The two major boards were, and still are, the Milk Marketing Board and the Potato Marketing Board. The least important are the Wool Marketing Board, the Hops Marketing Board, and the Northern Ireland Pigs Marketing Board.

The EEC. In 1973, a major change occurred, namely UK entry into the EEC. The UK then had five years in which to adjust its national institutions to conditions of fair competition between her trading partners and to conditions of at least relatively free trade. Full membership of the EEC became a reality in January 1978.

The Northern Ireland Pigs Marketing Board was taken to court under EEC law, found illegal, and disbanded. The Hops Marketing Board was threatened, and decided discretion was the better part of valour. The legislation to disband it was passed recently and it is now transformed into a voluntary co-operative. The Milk Marketing Board was subjected to a producer referendum. It achieved 98 per cent support, and was reluctantly permitted by the EEC Commission to continue, although it is once again under EEC scrutiny.

THE POTATO MARKETING BOARD

During the transitional period, no move of any kind was made by the minister, the board, or indeed the National Farmers' Union, to review the position of the board. Nor was any consideration given as to how a statutory body could possibly be permitted to continue tampering with potato prices, ordering the amount to be grown by decree and refusing entry to foreign potatoes from other EEC countries, within the supposedly free competition provisions of the Treaty of Rome.

The position did not long go unnoticed by the EEC Commission.

The PMB refused to lift its import ban and consequently the UK government was taken to the European Court. In its defence, the board made it quite clear that if it lost the right to ban UK imports, it would no longer be able to continue, as this was the basis (control of the market) on which it operated. In the event, it lost the case in May 1979 and was ordered by the EEC Commission to permit free trade in potatoes between the UK and other EEC member states.

Despite its assertion that it could not continue, the board in fact did so. The main difference was that it could no longer offer farmers the annual increase in their so-called guarantee price (this is a price estimated to cover production costs, and is offered to farmers on around ten per cent of their production during a limited period in years of surplus). By 1983, the value of this guarantee price had dropped in real potato prices to an ineffective level. Loss of the import ban meant a flood of potatoes from Europe, replacing those bought by the board. In effect, the board would have had to buy up the whole of any European surplus. Clearly, therefore, the board from 1979 has been unable to fulfil the function for which it was originally constituted, as shown by the fact that in the four years prior to EEC membership, the board devoted 14 per cent of its income to supporting the market, while in the following four years this climbed to 63 per cent with ineffective results.

Other board functions

From a brief study of our European partners it becomes clear that firstly, they all operate fairly happily on a free enterprise and free trade system in potatoes; and indeed also in most other crops. The most efficient EEC potato producing country is in fact the Netherlands. They have a huge production and an aggressive marketing policy, yet no government control other than some regulation of seed production. In Germany, a small bureaucracy of less than a dozen people handle the potato industry's promotion and research effort, which is an interesting comparison to the Potato Marketing Board's administration costs of £5.5m (Dec 1982 accounts) and £6.6m producer levy input. What then, is its justification?

Apart from the guaranteed price, there are other functions which the board claims are invaluable. These were spelt out by the recently retired general manager of the board, Brigadier E Forster. They are as follows:

- * provision of a telephone answering service with daily market prices;
- * research and development;
- * provision of statistical information through compulsory grower acreage returns;
- * advertising;
- * quality inspection;
- * representation to government and overseas.

Telephone answering service. This is a minor service and is not

used by a great many growers, who prefer to make their own checks on market prices each day. There have been reports of inaccuracy and doubts about the service by growers.

Research and development. This work is done largely through universities and privately-financed agricultural companies, such as fertilizer manufacturers and producers of spray chemicals. University research is often sponsored with government grants passed through the Potato Marketing Board. The Ministry of Agriculture also carries out research. Grant money could always be distributed through the Ministry of Agriculture or the Agriculture Research Council instead of through the Potato Marketing Board.

Statistical information. For all other crops, this is already obtained by the Ministry of Agriculture census returns. There is no reason why potatoes should not be included.

Advertising. The Potato Marketing Board undertakes 'generic advertising', but a case has never been demonstrated for the value of this. For example, admonitions to 'buy British new potatoes now', are just as likely to sell Egyptian potatoes as British. Advertising of local brands is another matter, and local co-operatives and groups are better left to do this privately.

Quality inspection. There is an existing horticultural inspectorate to check any standard that is claimed by a producer. In fact, a free market sets its own standards. In a glut, only high grade produce will sell. In a shortage, if the consumer can afford to buy only a lower standard, he should be permitted to do so and the producer should be able to sell. At present this is not possible.

Representation to government and overseas. The National Farmers' Union is the appropriate body for this. The Potato Marketing Board is represented at major EEC Agricultural Shows such as Verona and Paris at not inconsiderable expense, although the tonnage of UK exports to France in 1981 was reported as being in double figures. The net effect of the board's considerable 'representations' in Egypt has been to teach the Egyptians how to infiltrate the UK market, which seems a questionable function.

Conclusions

There are three types of potato grower: the early potato grower, the maincrop grower, and the grower of potatoes for processing. Only one of these, the maincrop grower, might receive some possible benefit from the guarantee price. As has been shown, this is now half current growing costs and half its 1977 value, and there was no guarantee price on offer at all in 1982, not even on the 10% of production mentioned earlier. In the event of total price collapse, a much simpler alternative would be to emulate the French system: at a certain low trigger point, an

acreage or deficiency payment could be paid by government directly to each grower.

The future of the Potato Marketing Board, if any, would seem to lie in the same direction as the Hops Marketing Board. It should be a small body, acting as a voluntary co-operative, concerning itself with marketing promotion and supported by voluntary levy.

Potato futures market

Trading in potato futures is a new option which began three years ago, and farmers are beginning to realize that it has more to offer than a guaranteed price for potatoes. Although some risk is involved, the average price at which potatoes were traded in 1981 was £60.00 per ton. The guaranteed price figure was a mere £44.30 per ton. It would therefore seem a much more worthwhile option for producers.

THE MILK MARKETING BOARD

The MMB came into being as a result of the Agriculture Acts of 1931 and 1933. Price rises caused by the first world war blockade had attracted new resources into the industry, and when the war ended, enlarged domestic and foreign supplies exerted a strong downward pressure on prices. Producers were given monopoly powers under the Agriculture Acts and were guaranteed a market for all output. Producer prices became virtually uniform throughout the country and a single retail price developed. Over-production resulted, and the board adopted a two-tier pricing system, selling the surplus over liquid consumption to manufacturing industry at a price well below the costs of production.

The board owns and operates milk manufacturing establishments, and in 1979 bought 16 creameries from the Unigate group which took their total number of establishments to 67.

Transition into the EEC during the 1970s brought further changes to UK dairying. The high protective barriers around the EEC against the imports of dairy produce has encouraged production, and surpluses of butter and skim milk have developed. These have been sold to the outside world at great cost to European consumers and taxpayers. Monopoly marketing boards are against the principles of the Treaty of Rome, but a referendum amongst producers was so overwhelmingly in favour of retention that the board was given a reprieve. Since that time, however, there has been widespread dissatisfaction with its administration costs, marketing policies, and other features.

The board has caused a change in the pattern of dairying, and although its effects may have been dwarfed by subsequent changes caused by the EEC, their cost should not be underestimated. Separating the farmer from the market and greatly reducing the

true transport costs for the least well placed producers has changed the geographical pattern of production and has raised costs. Abolishing competition at the first level of sale and shielding the producer from the necessity of matching supply to demand has been a factor in attracting resources to dairying that genuine demand would not warrant. Prices are fixed by the government rather than the board, but they are only so fixed because of the producer monopoly and the feeling that the government has a responsibility to the consumer under the circumstances. The well placed efficient farmer would be better served if he were free to agree prices and sell direct to a wholesaler or to his market without the imposition of a levy. The consumer, for his part, would be better served without a supply monopoly by the farmer. All this suggests that the board should have its monopoly withdrawn, although it might continue as a non-compulsory co-operative.

BRITISH WOOL MARKETING BOARD

This board is currently something of an anomaly. It is preserving a moderate income for sheep producers in the face of a severe world recession. It is also quite a good marketing organization, having secured fairly substantial markets in Italy, Japan and the Far East. However, this is an artificial situation. The UK is the only European country to offer a guaranteed price for wool and some might suggest that our board would be even better at marketing if it did not receive government assistance.

The wool industry today uses barely half the wool it used ten years ago, yet the 1981 wool clip was the second biggest in its history and sheep numbers are increasing. Undoubtedly the price support system generates much of this overcapacity - a clear waste of resources.

The board's future would appear to be a gentle transition into a co-operative, much as the Hops Marketing Board has recently transformed itself into the Hops Marketing Co-operative.

OTHER AUTHORITIES

Food from Britain

This new agricultural quango was set up recently by the then Minister of Agriculture, Peter Walker. It has been met with very muted approval by some parts of the agricultural industry. In fact, many attempts have been made before to set up general marketing organizations to promote 'British' goods. They have generally failed, because private firms always have an incentive to sell and promote their products in the marketplace in healthy competition. The national organization, run by civil servants whose incomes are not related to the products they sell, does not

operate on incentive. Nor is it as concerned with whether its investment in promotions yields good returns or not.

In conclusion, this is an organization that does not have the general support of farmers, and that it should not be allowed to gestate. Generic promotion is of little proven value compared to branded produce promotion by the private sector.

Apple and Pear Development Council

This organization has been a source of considerable discontent amongst farmers, who are forced to pay annual levies for its maintenance. It is, in effect, simply a publicity machine for the fruit industry. Most growers are of the opinion that advertising of a particular commercial or co-operative branded product is worthwhile, but that generic advertising of this type is of little proven value, as demonstrated in the case of the Potato Marketing Board. In 1982, farmers threatened a test case against the council's levy collection under the Treaty of Rome. There is some doubt about the case's continuation due to the legal expense involved.

It is doubtful that promotional organizations of this type are necessary. The most effective promotional organizations arise, not from compulsory national schemes, but from private commercial organizations who are offering their own branded products. This suggests that the Apple and Pear Development Council should have its statutory status removed, and should be given the option of turning itself into a voluntary co-operative, along with the other marketing boards.

Eggs Authority

Apart from collection of statistics, this body is now of little relevance to the present-day industry. We propose that it be formally dissolved.

The Home Grown Cereals Authority

The HGCA was established under the 1965 Cereals Marketing Act. It provided for between 21 and 23 members the authority, all of which are appointed by the agriculture minister. The members are drawn from a variety of sources, including representatives from traders, cereal users, farming interests and independents.

The main aim of the HGCA is 'to improve the marketing of home-grown cereals in the United Kingdom'. The 1965 act empowers the authority to provide a market information service, to undertake scientific and economic research, and to perform various other functions relevant to its central objective.

From 1 February 1973, under powers derived from the European

Communities Act 1972, the HGCA became responsible, as agent of the Intervention Board for Agricultural Produce, for work arising from UK membership of the EEC in relation to cereals and oilseed rape. This work included: supervision of the de-naturing of wheat (since discontinued); executive functions relating to the intervention buying, storage, and selling of cereals and oilseed rape; work connected with food aid arrangements and end-of-season stocks compensation; and, as agent of the Ministry of Agriculture, Fisheries, and Food, for reporting cereal prices to the EEC.

As appears to be common with many other areas of government operation, the work which the HGCA does could easily be performed to an equal, or higher, standard by a private organization. For example, a market information service could easily be provided privately. The research work that it does could, and should, be passed on to the cereal industry itself.

With regard to the general function of the Authority, of improving the marketing of home-grown cereals, we believe that this should also be transferred to the private sector. In Britain, there is no shortage of advertising and marketing agencies, so such a move would not cause any problems for the industry. It would improve choice, and because of competition would no doubt lead to lower costs.

As to its role in the buying and selling of cereals and oilseed rape, such action does nothing of obvious benefit to the industry or the consumer. We propose that the HGCA should be wound up and its functions transferred to the private sector.

THE LANDINGS

There are broadly two classes of landholdings in England, the institutional and the private landholdings. The latter are either private individuals or family trusts. Although there were a number of institutional landholdings in the 1950s, a rapid increase in their number did not take place until the 1970s.

The extent of institutional ownership is open to doubt, but recent research shows it to be around 40% of the total. The Crown and other quasi-institutional landholdings are included in this ownership which would exceed 1,000,000 acres. This should be compared with the total UK farmland of about 40,000,000. The table below provides a comparison between the number of holdings owned and let in England and Wales over the past 20 years.

It will be noted that there were less than one-third of the number of tenanted holdings in 1981 than there were in 1961, although the total number of holdings had dropped by only 10% over the period.

3. THE LANDLORD AND TENANT SYSTEM

In the nineteenth century, the landlord and tenant system was based upon friendship and co-operation between the parties. The landlord provided the capital and the tenant provided the labour. The system, subject to certain amendments mainly at the turn of the century to improve the lot of the tenant, worked satisfactorily until 1948.

The Agricultural Holdings Act of 1948 provided a new framework to govern the relationship between landlord and tenant. The tenant was granted security of tenure for life, subject to a strictly limited number of occasions upon which the landlord had a right to serve a notice to quit. The act also introduced a number of new measures rather more in favour of the tenant than had been the case previously. Although the number of farms being offered for tenancy had been declining gradually since the end of the first world war, the introduction of the security of tenure provisions reduced the flow still further and at the same time created a premium for vacant possession land.

The Agricultural (Miscellaneous Provisions) Act of 1976 extended the tenant's security of tenure to three generations and further restricted the ability of a landlord to serve a notice to quit. The effect of this act was to reduce the flow of farms being offered for tenancy to a handful each year.

Considerable pressure is now being exerted by a growing number of potential tenants and a number of landlords, to open up the landlord and tenant system once again.

THE LANDLORD

There are broadly two classes of landlord: the institutional landlord and the private landlord. The latter are either private individuals or family trusts. Although there were a number of institutional landlords in the 1920s, a rapid increase in their numbers did not take place until the 1970s.

The extent of institutional ownership is open to doubt, but recent research shows it to be around 670,000 acres, and if the Crown and other quasi-institutional organizations are included, ownership will easily exceed 1,000,000 acres. This should be compared with the total UK farmable acreage of about 40,000,000. The table below provides a comparison between the numbers of holdings owned and let in England and Wales over the past 61 years.

It will be noted that there were less than one-sixth of the number of tenanted holdings in 1981 than there were 61 years before, although the total number of holdings has dropped by only just over one-half.

Table 1

Holdings owned and let in England and Wales

Year	Owned	Tenanted	Total
1920	57,234	360,757	417,991
1950	138,733	185,004	323,737
1981	126,767	58,285	185,051
1981 (acreage)	15.8 million	11.1 million	26.9 million
1981 (acreage Scotland)	7.9 million	5.6 million	13.5 million

The institutional landlord considers a purchase of agricultural land in purely financial terms. Initially, the fund managers consider the return on their investment and the security of that investment, and subsequently they may consider realizing the vacant possession premium on farms and cottages as and when they arise. If, however, they consider that the re-letting of a farm which becomes vacant meets their investment criteria, they will re-let, as the majority of funds are doing at present. The legislation affecting security of tenure is of little concern to them, since they are primarily dealing with a commodity known as 'let land'.

Taxation

Regarding taxation, an institution is treated quite differently from a private individual, and since the position is the same for the majority of a fund's investments, tax does not form such an important consideration as it does for the private landlord. Fund managers, their directors, and the agents, will all wish to do right with their agricultural investments by conserving, by modernizing and generally improving, and by the injection of capital; but they may not have the same long-term effect on the environment as a private individual who owns the land and lives in the area.

The private landowner seldom considers his holding as a good investment today. His returns have been very low compared with what he could have achieved on the financial market. His assets are not readily realizable and, in times of political uncertainty, he is unable to adopt a flexible response in order to protect himself. Furthermore, a private landlord is unfavourably treated for income tax, capital taxes, and value added tax, when compared to the owner-occupier. Finally, he has seen his chance of regaining possession of his land seriously eroded by the introduction of the 1976 Act. The tax position of the private

landlord is as follows.

Income tax. Rent is assessed under Schedule A, on which there is a 15 per cent investment surcharge set at a low threshold. The taxpayers' losses from other sources cannot be offset against rental profit, and the amount of their general expenses which can be offset against income is strictly limited. For an owner-occupier, tax is assessed under Schedule D. The taxpayer has to make a profit only in the sixth year. There are numerous ways of increasing farm losses and offsetting other income against these losses as well as including many general living expenses under farms expenditure.

VAT. A landlord is usually partially exempt. VAT on repairs to property subject to an income is only recoverable where a taxpayer has a large proportion of VATable supplies, e.g., he has an in-hand farm. The owner-occupier can reclaim his VAT monthly, whereas a business owner can claim only quarterly.

Capital transfer tax. The 1981 Finance Act attempted to eliminate the landlord's disadvantage of being able to claim relief. However, the average private landlord still thinks he will be better off with an in-hand farm.

Capital gains tax. There is no rollover relief available upon the sale of let agricultural land.

THE TENANT

As can be seen from Table 1, above there are now relatively few tenanted farms remaining. The Agricultural Holdings Act 1948 introduced security of tenure for the first time subject to a strictly limited number of rules which, if broken, could enable the landlord to obtain possession. These rules are known as the 'seven deadly sins' and include the tenant committing an irredeemable breach of a covenant, bad husbandry, or death. The Agricultural Miscellaneous Provisions Act 1976 granted to the tenant security of tenure for three generations, subject to meeting certain criteria. The Act also further limited the scope for the landlord to regain possession by any of the other means open to him.

The consequence of this legislation, coupled with the taxation provisions, has reduced the number of farms being offered for tenancy to a trickle. Those that do come on the market generate a great deal of interest and attract significant rental premium. Although it is unusual for a landlord to accept the highest tender rent, it is clear that many tenants have a difficult task to farm profitably in the first few years.

What is unfortunate is that the large number of disappointed applicants would be only too happy to farm without security of tenure. Alternative methods, such as partnerships, share farming, and contracting, are being developed to assist

landowners in farming their land more efficiently, but invariably, such arrangements are with established farmers and not with those wishing to enter farming for the first time.

The future

The NFU/CLA have devised a package whereby new tenancies should be for life only, and computation for assessment of rent on review would be on a slightly different basis to that adopted under the 1948 Act. Although hailed as an important breakthrough, it attempts to tackle only a part of the problem, and in particular, that part which is most likely to be overturned by future governments. The Finance Act of 1981 attempted to make the Capital Transfer Tax provisions comparable for both in-hand and let land, but the whole range of tax inequalities requires a more equitable adjustment between landlord and owner-occupier. Furthermore, the alteration of the basis for rental calculation is thought likely to reduce the return on capital invested. Accordingly, this may deter institutional buying.

The effect of this will be to reduce the price of let land with the probable result that still more farms will be taken in hand by private landlords or tenants will buy out their landlord.

The institutional funds have tended to purchase prime investments on grades I and II land which form some 17.4 per cent of the land in the UK. The majority of the private landlords' holdings are on poorer land, and in many cases, the holdings are under-equipped and small in size. Institutions may move into these second rank investments, taking their profit by selling surplus property and ultimately amalgamating holdings or selling to tenants.

An unpromising proposal for the future is that schemes such as those practised at Sutton Bridge by the Ministry of Agriculture after the first world war, may be re-introduced, whereby tenants are granted smallholdings on grade I land as a first rung up the farming ladder. In that case, the majority of tenants stayed where they were, and there is nothing to suppose that this would not happen again. There would appear to be no good reason for would-be tenants to be provided with a government inspired entry into farming, or for support to agricultural co-operatives.

CONCLUSIONS

We have seen that there are two classes of landlord, the private and the institutional. In the case of the institutional landlord, let land is treated in the same way as any other let property investments and the security of tenure and taxation provisions are broadly similar throughout the property spectrum. The majority of private landlords have inherited their estates and do not necessarily consider their let agricultural land as a good investment. They have seen control over their estates further removed from them by legislation, and they are at a

significant tax disadvantage as compared to an owner-occupier.

The private landlords are still by far the largest landowning group in the country and in proportion probably have an even greater number of tenants per thousand acres than the institutional landlords.

There are now so few holdings available for letting left that there is no hope for the vast majority of would-be tenants obtaining a tenancy. To remedy this would require that the relevant parts of the acts of 1948, 1976 and 1981 be repealed, with freedom of contract being re-introduced for tenancy agreements. It would be reasonable that those presently renting their farms should retain security of tenure for the rest of their lifetimes, while others could negotiate contracts. Alternatively, but less dramatic, all landlords and tenants, especially those entering new agreements, could be given the right to opt out of the security of tenure provisions and some others by mutual agreement. This element of greater choice and freedom of contract would require minor changes, since existing agreements would be unchanged; but it would certainly release a large quantity of lettable land for new tenancy agreements.

The agricultural mortgage corporation

The AMC is a company limited by shares, set up (on pursuance of the Agricultural Credits Act 1928) on the 12 November 1928. There are seven shareholders in the AMC: the Bank of England, Barclays Bank Ltd, Glyn's Nominees Ltd, Lloyds Bank Ltd, Midland Bank Ltd, National Westminster Bank Ltd, and Williams and Glyn's Bank Ltd. Of its eight directors, five are elected by these shareholders, two are nominated jointly by the Minister of Agriculture, Fisheries and Food and the Secretary of State for Wales, and one is nominated by the Treasury.

The AMC's main duties are to make loans on first mortgages of agricultural estates, properties, or lands in England and Wales, and to make loans in accordance with the Improvement of Land Acts of 1864 and 1899. However, it does have activities which are not directly specified in its terms of reference. Provisions of the Agricultural Credits Act of 1928 included power for the Minister of Agriculture, Fisheries, and Food to make loans to the AMC, interest free for sixty years, for the purpose of 'establishing a guarantee fund as a backing for AMC's debenture issue'. The extent of these loans was increased under the Agriculture (Miscellaneous Provisions) Act 1944, 1972 and 1976, and the Agricultural Mortgage Corporation Acts of 1956 and 1958.

It makes little or no sense for a government appointed organization to duplicate the functions of the finance industry. Britain is not short of financial institutions, such as banks and building societies, who lend money for any profitable proposition. The corporation should be transferred to the private sector either by persuading the banks involved to take

full responsibility for it, or by selling it and its obligations to whoever is prepared to take them on.

State forestry, with state intervention in agriculture, has the origins in the first world war. Two of the main reasons for state involvement in forestry are a desire to ensure a continuing supply of timber for the pulp and paper industry and a desire to ensure that the forests are managed in a way which will provide a continuing supply of timber for the pulp and paper industry. The state's involvement in forestry is a result of the fact that the forests are a natural resource which is essential for the production of timber and paper. The state's involvement in forestry is a result of the fact that the forests are a natural resource which is essential for the production of timber and paper.

The argument that private owners are unable to manage forests to the benefit of future generations is a fallacy. Indeed, individual and institutional owners have always made long-term investments in forests. Such investments are particularly suitable for pension funds and life insurance companies. The requirements for public access, recreational use, and conservation can be equally well catered for by private owners, provided there are no prohibitive legislative conditions.

In our judgement, there is no good reason why forestry should remain a matter of state concern or why state forestry should be a government activity.

Present and future sales

The Forestry Commission does not manage its forests well - although this judgement can be based only on a general comparison of working practices in the commercial sector, and the quality of the timber produced. The Commission's management is a very poor one, and the quality of the timber produced is very poor. The Commission's management is a very poor one, and the quality of the timber produced is very poor. The Commission's management is a very poor one, and the quality of the timber produced is very poor.

So far, less than one per cent of the Forestry Commission's land has been sold to the private sector, and the forest offered by the Forestry Commission has generally been of the highest quality. The private sector forestry is of high quality. In some cases, the most commercial sites have been put up for sale first, raising political objections to all sales. The process of privatisation began in the Forestry Act 1969, and it is to be accelerated if the whole of the Forestry Commission is to be returned to the private sector as soon as possible. Of course, the sale of the Forestry Commission's land is a very important matter.

4. THE FORESTRY COMMISSION

State forestry, like state intervention in agriculture, has its origins in the first world war. Two of the main arguments for state involvement in forestry are similar to those relating to agriculture; the strategic argument and the balance of payments argument. Whatever their previous merits, both arguments are no longer valid. In the nuclear age, a major war would be likely to be very short and terminal for many of us. In any case, a stockpile of imported timber would be a much cheaper alternative to the large reserve of standing timber which it is claimed would be required in a national emergency. The balance of payments argument, always a very dubious one, has receded into the distance in the age of North Sea oil.

The argument that private owners are liable to devastate forests to the detriment of future generations is patently untrue. Individual and institutional owners have always made long-term investments in forests. Such investments are particularly suitable for pension funds and life insurance companies. The requirements for public access, recreational use, and conservation can be equally well catered for by private owners (for whom these can be profitable) - if necessary - by legislative conditions.

In our judgement, there is no good reason why forestry should remain a burden on the taxpayer or why raising trees should be a government activity.

Present and future sales

The Forestry Commission does not manage its forests well - although this appreciation can be derived only from a general comparison of working practices with the commercial sector, and sundry anecdotal evidence. As with most nationalized undertakings, the figures which the Forestry Commission publishes are not very enlightening. Forestry is, contrary to some assumptions, a very economic proposition in Britain. There is a high demand for forestry from pension funds and other private investors who have found that they can get a good real return on their investment over the long term in well-managed forestry.

So far, less than one per cent of the Forestry Commission's land has been sold to the private sector, and the forest offered by the Forestry Commission has generally been not of the highest quality (making private sector forestry experts wonder whether **any** of the commission's forest is of high quality). In some cases, the most controversial sites have been put up for sale first, raising political objections to all sales. The process of privatization begun in the Forestry Act 1981 needs to be accelerated if the whole of the Forestry Commission land is to be returned to the private sector as soon as possible. Of course, the sale at realistic prices of some nine per cent of our land

area will take time, but four to six years should suffice for disposal of it all. The present sale and leaseback arrangements being put forward by the Forestry Commission would have to be terminated during this period.

The process of selling the forests can be speeded up by the appointment of an independent team of forestry economists with the power to value the forests and negotiate prices with the private sector. Any essential regulatory activities, such as the control and investigation of timber diseases, should be transferred to the Ministry of Agriculture, or contracted out to private forestry or pest control concerns, who have shown themselves to be historically more efficient in this activity.

The effects on employment of the transfer of the Forestry Commission to the private sector should not be great, as only some 12,000 people work in forestry in Britain, with around 8,000 being employed by the Forestry Commission. Forestry is generally more labour-intensive than hill farming, so there could clearly be improved employment prospects if forestry were allowed to expand onto some of the land presently occupied by uneconomic and heavily subsidized hill farms. Forestry in Britain can have a bright future once privatized, and the sale of the Forestry Commission should raise some £1,500 million.

The number of people required to advise ministers should be as the responsibility of the departmental ministers. There is no justification in government for land farmers who cannot afford capital improvements as long as they are able to obtain credit.

The area where there could be a significant increase in production is in sheep and animal health regulations and in disease eradication. It is unlikely that a disease such as scrapie, which is a pest such as the wax moth fly could ever be eradicated without prolonged compulsory, but regulations of this kind are justified because they are fair to all farmers, and do not have to be imposed on individual farmers.

THE AGRICULTURAL RESEARCH COUNCIL

The Agricultural Research Council, disposed of some £100m in the year ended March 1987, and £75m in the year preceding to that. According to a Ministry report on research and development in 1984-85, considerable reductions were made in government research, funding which, if it increased would have been far greater. Such funds are not recoverable in this context, and a direct loss at the Council's operations is needed, with a view to asking those who benefit directly from agricultural research pay for it.

A direct transfer cannot be accomplished due to the complexity of the proliferation of university departments as well as the

5. AGRICULTURAL RESEARCH, TECHNICAL, AND ADVISORY SERVICES

ADAS

The Agricultural Development and Advisory Service of the Ministry of Agriculture was created by amalgamation in 1971. It now employs approximately 5,000 of the staff of the ministry. It has four main functions: to provide information and advice to farmers; to undertake research and development; to contribute to advice given to ministers and government policy decisions; and to enforce plant and animal hygiene regulations, disease eradication, and land drainage and capital grant schemes.

Its role as a nationalized agricultural consultancy service is anomalous. There already exists a large number of farm advisory firms who have flourished despite the existence of what has largely been a free state service, and there seems to be no justification for the continued provision of such a state service. Research and development are already carried out by commercial companies, and this side of ADAS's work could be privatized or closed down, unless those running them feel they could bid to run them privately on commercial grounds. Universities also carry out a great deal of agricultural research and, as the Select Committee on Agriculture found, there is a risk of unnecessary and expensive duplication in this field.

The number of people required to advise ministers will reduce as the responsibility of the department shrinks. There is also no justification in government grants for land drainage and other capital improvements so long as there is no danger of food shortages.

The area where ADAS could and should continue is in enforcing plant and animal health regulations and in disease eradication. It is unlikely that a disease such as brucellosis, and a pest such as the warble fly could have been eradicated without organized compulsion, but regulations of this kind are justified because they act fairly on all farmers, and do much to reduce animal suffering.

THE AGRICULTURAL RESEARCH COUNCIL

The Agricultural Research Council disposed of some £90m in the year ended March 1982, and £78m in the year previous to that. According to a ministry report on research and development in 1980-81, considerable reductions were made at government request, failing which, this increase would have been far greater. Such funds are not inconsiderable in this context, and a closer look at the council's operations is needed, with a view to making those who benefit directly from agricultural research pay for it.

A brief survey cannot accomplish this due to the immense proliferation of university departments as well as the council's

own research institutes and units (which cover 25 pages of its annual report). However, the following overall impressions can be gained from ARC publications and consultations with farmers and academics in the agricultural research field.

Overall control of agricultural research. According to the ARC prospectus, research priorities are decided by around eight committees of scientists, advisers, farmers and industrialists. In fact, a close examination of the two most important research grant board committees, dealing with animals and with plants and soils, reveals only one non-academic. So the supposed beneficiaries of the research are not very heavily involved. To an extent, the effects of the ARC have become the maintenance of academic salaries and pet research departments ahead of agricultural requirements.

Duplication of research. There is evidence that some research, as well as being of doubtful necessity, often duplicates or mimics research elsewhere. An example recently was work at Sheffield University on weed control by electric shock treatment. After several years of expensive research, the whole project was abandoned as fruitless. It turns out that the Americans have already done similar research and come to similar conclusions.

There appears to be little evidence of attempts to correlate work in the USA and other European countries with our own. Much more time and effort should be devoted towards these ends if costs are to be kept down and effects maximized. Despite the existence of many more research establishments in the USA, both privately and publicly funded, the chance of duplication there has been effectively eliminated by the Federal Research Library in Maryland. Every establishment can link up to its computer catalogue to discover what is being done or has been done in any branch or aspect of agricultural research. It would seem to be to our advantage as well as theirs if British institutions were to contribute to the library.

Impartial investigation of current research programmes and subsequent evaluation. Those involved at grass roots level, i.e. farmers, should be invited to join committees exercising overall control, and their views should also be sought to evaluate the research when completed. This is part of the process of attracting more private sector funds into research, and weaning farmers off the idea that agricultural research is a 'free gift' bestowed upon them by the state.

Non-agricultural bodies in receipt of research grants. There are a number of bodies receiving grants, but which appear to have no connection with agriculture. Although some appear to be doing agricultural research, the bodies themselves appear to be undertaking animal studies with the ultimate aim of medical research. The eligibility of these bodies should be investigated.

Conclusions

Very substantial cuts in funds would force the council to bring about more stringent economy and evaluation of research to agriculture.

The agricultural industry currently contributes a small part of the ARC budget. Members of the council might be induced to spend more time seeking out funds for research projects from the private sector, which would again add to its cost-consciousness and lead to better project evaluation.

A thorough restructuring of research grant committees needs to be undertaken to restrict and re-direct research work towards more worthwhile projects. We suggest that committees should not contain more than one third academics, with the remaining two thirds consisting of farmers and representatives from the agriculture industry, in order to improve the participation of those who will ultimately benefit from the work.

More discipline should be imposed on research. It seems reasonable that at least one annual inspection should be made of every research grant-aided project, and grants ended where necessary. ARC staff should be made responsible for checking on duplication of effort by relating current grant-aided work with past work and current research in foreign universities, possibly through the development of electronic communications systems.

The ARC's work should be gradually privatized. The dividing line between 'pure' and applied research is sometimes difficult to draw, but if applied research is intended to afford an immediate financial gain, while 'pure' research does not, then there is a case for pure research being undertaken by universities and some part of the cost being met by the state. But the call upon taxpayers generally to pay money for research which mostly will be to the advantage of a small group of taxpayers (who may well be commercial concerns engaged in competition with other taxpayers not so advantaged) cannot be justified by any criteria that we can imagine.

LAND DRAINAGE

Even in Roman times, land drainage schemes were carried out. But in Britain it was not until the start of the second world war, when the ministry of agriculture was placed on a war footing, that state involvement became significant, both in financial and physical terms. From that time onwards, the trend, measured by the amount of land being drained, has been undoubtedly upwards - from about 10,000 hectares per annum in the early 1940s, to about 100,000 hectares per annum in the late 1970s.

The farmer, of course, benefits by the improved quality of his land in obvious ways: greater flexibility, variety, productivity, and profitability (due to it probably being converted from

pasture to arable land).

Administration and finance

In England and Wales, the Regional Water Authorities (RWAs) are responsible for the land drainage of the 'major watercourses'. Drainage elsewhere comes under the control of the Internal Drainage Boards, local authorities, and individual landowners or occupiers.

The primary source of finance is public funds. However, this does not imply that the system of finance is simple. The RWAs are financed by the county councils in their area, while the IDBs levy a 'rate' on all landowners and occupiers in their area. In addition to this, both RWAs and IDBs can apply to the Ministry of Agriculture, Fisheries and Foods (MAFF) or the Welsh Office Agriculture Department (WOAD) for grant-aid at an average of 55 per cent for RWAs and 50 per cent for IDBs. Landowners and occupiers may receive (generally in retrospect, since no prior approval is needed) grants under a variety of schemes primarily based on where the drainage is taking place. Under the Agriculture and Horticulture Grant Scheme (AHGS), 37.5 per cent can be granted by MAFF or WOAD, while the figure is 50 per cent under the Agriculture and Horticulture Development Scheme (HDS), and even rises to as much as 70 per cent for 'less favoured areas', which refer to disadvantaged hill and mountain areas, or more simply, most of upland Britain.

In total cost terms, the levels of subsidy can be seen clearly. In 1980-81, 131 individual land drainage improvement schemes were approved by the RWA at a capital value of £31.8 million and further expenditures on land drainage cost another £70 million. In the same year, 144 IDB drainage improvement schemes went ahead at a total capital cost of £5.5 million, and on top of this, revenue expenditures amounted to £12.5 million. MAFF and WOAD expenditure on land drainage amounted to approximately £31.9 million under the AHGS and AHDS schemes. In sum, it can be seen that there is approximately £152 million of public money being used for land drainage, with £69.2 million of that being classified as capital (improvement) expenditure.

Insufficient control. Paradoxically, to get any further with the finances of land drainage is virtually impossible, since as a result of the 'Rayner' review, only the capital expenditure of both RWAs and IDBs are subject to any form of official accountability. The net result is that only a mere 37 per cent of total capital expenditure on land drainage (including the farmers' contribution) and only 54 per cent of the capital expenditure (public money) can be properly accounted for.

Other problems of the present system

It is within this context that both the effects that land

drainage has, and the role it plays in British agriculture can be considered.

Dependency. The most obvious problem with the system outlined above is that the level of subsidy being provided cannot be justified, either in terms of economic efficiency or even with regard to any long-term advantage to the farming sector. While a minimal level of subsidy is desirable in order to overcome the 'public good' problem of drainage near many waterways, it seems odd to subsidize the costs of a farmer for improving his land. If the future of British farming lies with improved competition and greater economic realism, then this will not be achieved by indiscriminate subsidy based on the decisions of bureaucrats and politicians, but on the operation of markets - whether they be national or international.

In more general terms, the situation that exists with land drainage is indicative of agriculture as a whole. The main problem is that a great part of British land is of poor quality, so that food can be grown only at high cost. The more subsidy that is given, the more seems to be needed, since the industry has become increasingly dependent on state handouts than on the profits from direct sales in the market place. For example, total farmland in the United Kingdom is 46,000,000 acres, of which only 7,800,000 (17.4 per cent) is deemed suitable for the growing of all arable crops, as it falls into what is classified as grade I or grade II land. However, in 1980, over 17,000,000 acres (over 37 per cent) were being used for arable farming - which implies that many millions of acres of this land are below quality and are being farmed at absurdly high cost.

Environmental issues. In many areas where extensive land drainage schemes have been implemented, there have been undesirable environmental side-effects which have sometimes been gradual and therefore all too easily ignored. On the one hand, there has been the long term erosion of the more natural areas of the British countryside by farming and the use of uneconomical land. On the other hand, the increasing drainage (of up to 100,000 hectares of land per annum in the 1970s) means that the natural habitat of numerous birds, animals, and plantlife is being seriously threatened.

Administration. Furthermore, there are administrative problems. A common complaint in the application of land drainage is the lack of information emanating from the administrative bodies. Not only are many details of the finances of the IDBs and the RWAs not published in full, but the actual decision-making processes and the evaluations of their cost-benefit analysis are extremely vague.

Solutions

Any solution must not just treat the problem of land drainage in isolation, but must systematically reduce the cost to the public

purse of British agriculture as a whole - only then can it seriously have a healthy and stable future. In more precise terms, this indicates repeal of the Land Drainage Act 1976, and that all subsidies to private landowners or occupiers should cease. Thus the AHGS and the AHDS would end, and pressure would be applied to other EEC countries to reduce their subsidies to land drainage.

Administrative simplification would result if the functions of the IDBs were taken on by the RWAs, and the IDBs were dismantled. The RWAs would then have the responsibility for the maintenance and improvement of both major arterial watercourses and non-main river drainage infrastructure. Environmental and other purposes may be served better if there were serious moves to open up the decision-making process, perhaps with public enquiries for all major land drainage proposals.

The funding from central government (i.e., MAFF and WOAD) would ideally cease, with the new RWAs being funded by a direct rate on those within their boundaries, who should in turn be represented on those authorities and eligible for election at (say) five yearly intervals. The decisions of the 'Rayner' review of 1980 are inadequate, and fuller information is needed in the form of guaranteed publication of the accounts and total expenditure of the RWAs in full, allowing greater public accountability of funds.

Similarly, other bodies should be dispersed with the East and Liverpool Commissions being abolished, as could some of the plethora of advisory bodies and agricultural committees. Consultative Committees, the Consultative Group on Food Matters within the EEC, the Crops Strategy Group, the Committee on the Use of Pesticides and Fertilisers, the Meat and Livestock Commission, Consumers' Committee, the Agricultural Services House Advisory Committee, etc. Most of the capacity research stemming from these bodies could be done by the RA's itself; such of them as duplicated by private sector work, and some of the capacity research and some of the research with a potential for private sector work, should be done on the basis of cost-benefit analysis, if the work were justified.

The British Sugar Corporation could be privatised over a short period.

The MAFF's functions should be more generally situated within that of the Department of Education and Science, with these functions being dealt with there. The MAFF should not be separately involved in education issues. Most of the research work done by the MAFF should be available and available to other parts of the Government, so that it is not duplicated. The amount of expenditure collected should be cut back drastically, and consideration should be given to abandoning the data collection survey. Certainly, its actual needs to be reduced, and cut back, with a view to saving to a single institution.

6. CONCLUSION

There is little reason for government to be involved in agriculture any more than in any other industry. The economic role of government in agriculture seems to be confined to public health functions such as the anti-brucellosis campaign, and the monitoring of health standards, including the hygiene of imports (for example the prevention of imports contaminated by DDT). Anti-dumping regulations can be justified from an economic point of view, but only against dumping promoted by another state and involving state subsidy.

Given the restriction of government activity to this role, other government functions in the agriculture field as yet unmentioned in this report would also cease. For example, the subsidization of slaughterhouses by the MAFF and local authorities has simply resulted in over-capacity in slaughtering, and cannot be justified. Perhaps the workforce, or other private companies, could be induced to buy these installations and turn them towards more productive uses. The Agricultural Training Board, the Agricultural Wages Board, and the Agricultural Wages Committees undoubtedly serve to increase unemployment, particularly among young people who are bid out of jobs, and are good candidates for abolition. The industry can be encouraged in its training function, and market level wages would do much to encourage new entry into agricultural employment.

Similarly, other quangos should be dispensed with. The Meat and Livestock Commission could be abolished, as could most of the plethora of advisory quangos: the Agricultural Statistics Consultative Committee, the Consultative Group on Food Matters within the EEC, the Coypu Strategy Group, the Consultative Panel on Badgers and Tuberculosis, the Meat and Livestock Commission Consumers' Committee, the Agricultural Dwelling House Advisory Committees, etc. Most of the necessary research stemming from these bodies could be done by the MAFF itself; much of it is duplicated by private sector work; and some is of temporary duration and does not need quangos with a perpetual life. The private sector would be happy to take on the role of many existing quangos, if this work were justified.

The British Sugar Corporation could be privatized over a short period.

The MAFF education budget would be more rationally situated within that of the Department of Education and Science, with these functions being dealt with there. The MAFF need not be separately involved in education itself. Much of the statistical work done by the MAFF is of dubious value and involves farmers in much time and trouble, so it is not costless. The amount of statistics collected should be cut back drastically, and consideration should be given to abandoning the farm management survey. Certainly, its extent needs to be reduced, and automatic fines, with a right of appeal to a simple tribunal, should

replace court proceedings for those who do not comply.

Price guarantees on products not supported by the CAP production and capital grants and subsidies should be withdrawn, for reasons we have explained. The subsidy to hill farms should be withdrawn over a period of three years, because of their tendency to encourage uneconomic uses of low-grade land. Given that land values are related to the level of subsidies, there is a case for the government to give a one-off grant to compensate farmers for the capital loss incurred by the withdrawal of subsidies. This could be done through bonds or by compensation only at the time of sale if money is not immediately available from the exchequer. But when long-standing expectations are dashed by the government, then in our opinion, the people who have suffered by the change in policy have some moral right of redress.

There is no need for agriculture, unlike any other industry, to have a separate department of state responsible for it, indeed, the very existence of the ministry makes it more likely that agricultural problems will call forth government actions - often well-intentioned but perverse in effect - instead of an effective response to the problems by the industry itself. Once the MAFF has been reduced to its minimum necessary functions and agricultural subsidies have been phased out, we propose that the ministry should lose its separate status and be merged with the Department of Trade and Industry (renamed the Department of Enterprise). All but a very few of the present buildings in Whitehall occupied by the MAFF could then be sold. Agriculture and fisheries would then be part of the responsibility of the Secretary of State for Enterprise.

7. THE MAIN OPTIONS

In the light of the above discussion, a number of policy options present themselves.

1. Phased withdrawal from CAP.
2. Withdraw supports for maximising production, and allow technical developments to be directed to product sophistication; e.g., timing, quality and distribution.
3. The Potato Marketing Board should be transformed into a voluntary co-operative without government support, and with its research function transferred elsewhere. Futures markets should in general replace guaranteed prices.
4. The Milk Marketing Board should lose its monopoly, and continue only as a voluntary co-operative.
5. The Wool Marketing Board should be transformed into a voluntary co-operative, supported only by its members.
6. The national organization to promote 'Food From Britain' should be disbanded, with promotion being left to the responsibility of producers themselves.
7. The Apple and Pear Development Council should become a voluntary co-operative of producers.
8. The Eggs Authority should be dissolved.
9. The Home Grown Cereals Authority should be wound up, with its functions transferred to private sector organizations.
10. Although lifetime tenure should be retained for existing agricultural tenants, new tenants and landlords should be free to opt out of tenure arrangements by mutual consent.
11. The agricultural mortgage corporation should be transferred to its existing shareholders, or more generally to private sector institutions.
12. Independent forestry experts should be employed to speed up the transfer of Forestry Commission land to private investors. Any essential regulatory powers should be transferred to the ministry.
13. Most functions of the Agricultural Development and Advisory Service should be transferred to the responsibility of their principle beneficiaries.
14. A thorough restructuring of the Agricultural Research Council is required, including greater participation by farmers and the elimination of unnecessary duplication.

15. Subsidies for land drainage should end, and the administration of drainage and watercourses should be simplified.

16. Committees and regulations which serve to increase agricultural unemployment should go, and agricultural quangos should be reduced or made subject to 'sunset' provisions.

17. Non-CAP price guarantees and subsidies should be phased out, especially subsidies encouraging the uneconomic use of land. A once-and-for-all compensation payment should be made in such cases.