



## MODERN AGRICULTURE AND FOOD PRODUCTION IN THE UNITED KINGDOM

Bridges Farming today is described by most commentators and the leaders of the farmers unions as being unprofitable without income support from subsidies. The latest figures of Farm Business Incomes (FBI) show that 72% of businesses are making losses when subsidies are subtracted from incomes. Dire predictions are made for agriculture after Brexit, and the Covid 19 pandemic has increased the number of forecasts of disaster. I have discovered that the official statistics of farm incomes are not what they seem to be. When I calculate the FBI of our farm it is much lower than its taxable income. To reach its FBI, I deduct from its taxable profit, an average rent although we own the farm and there is no rent to pay. I also deduct 5% of the capitalised value of the investment in the livestock, machinery and the land and buildings, and the unpaid wages of the family members on the farm. By deducting these costs, which most farmers do not pay, a farm business, capable of providing an adequate living can be presented as a loss- making enterprise in need of non-means- tested income support. Farmers are not as poor as they are portrayed to be: the average net worth of farm businesses in Scotland is about £1m.

I believe that farming can prosper after Brexit when it will no longer be bound by the Common Agricultural Policy (CAP), which, in reality, is a Social Welfare Policy, originally intended to give income support to the many small farmers in France, paid for by the profits from German manufacturing industries.

It has never been appropriate for the UK where the average farm size is much higher than in other EU countries. The major beneficiaries of the CAP are those who own the biggest farms and receive subsidy money they do not need which can be spent on buying more land, enabling them to obtain more subsidy income to buy even more land. Tenant farmers who receive subsidy money pay most, if not all of it, to their landlords as rent. I am not alone in having this opinion of the CAP. In March this year, Jonnie Hall, the director of policy of the National Farmers Union of Scotland said "We have lived for 46 years under the CAP and how many favours has it done for Scottish agriculture? CAP has stifled development and innovation, blocked new entrants and inflated land prices. There is so much scope for improvement if we are given the right tools." He did not define what he thinks the "right tools" are.

There is a large difference between farm businesses in their productivity and profitability. The top 25% are consistently profitable and produce more than the rest. If the others could match the top 25%, many more farmers could manage without subsidies.

I say that too many farmers have no incentive to do better because they have the subsidy cushion for comfort if they fail. Much more food could be produced in the UK but will not be whilst subsidies allow farmers to be paid when using their land below its optimum capacity. Payments are received by some who produce nothing from their land.

Brexit has raised the spectre of competition from other countries supplying food at lower prices, which will put UK farmers out of business. Most of the discussion is about food being produced under conditions, which are illegal in the UK.

I have sympathy with objections relating to animal welfare and hygiene but I cannot support objections to methods of crop production using new technology to increase resistance to diseases and reduce the use of pesticides. Many farmers say that they will be unable to compete if subsidies are withdrawn but subsidies do not reduce our costs of production; the cost of inputs tends to be higher when subsidies are available. Comparison with New Zealand where subsidies were withdrawn in 1984, shows this to be true.

The debate about protection or free trade is reminiscent of what was said about abolition of the Corn Laws in the first half of the nineteenth century. Disaster was forecast after 1849 when tariffs were removed but farming prospered in the years following their abolition. Industrial prosperity and wage increases meant that there was greater demand for farm produce and those farmers who adapted to change by using new technology, mostly in the form of new machinery, were successful. The small dairy farmers in East Lancashire found that the demand for their milk and butter increased with the rise in wages in the cotton industry and sheep farmers adapted to the competition from imports of mutton from Australia and New Zealand by producing lamb instead of mutton which was preferred by their customers who were also willing and able to pay higher prices for it.

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He is the author of 'Lie of the Land' published in 2004*



I am sure that there are plenty of farms in a similar financial position to ours by not being reliant on subsidies but there are also many farmers who do depend on subsidies, most of whom have chosen to do so. They rely on taxpayers money to maintain their standard of living, rather than work better to improve production. If a farmer can have a satisfactory lifestyle when working four or five days a week, there is no need to increase production by doing more work. Many farms, which used to have livestock twenty-five years ago, now have none. Arable farming requires less labour than livestock farming which needs someone to be on call at all times. The costs of labour are high because employers have to pay their workers Income Tax and NIC in addition to their take-home pay, the simplest way of reducing costs on a farm is to sell the livestock and dispense with farm workers. For every two full-time staff members on a farm, an amount of money equal to the take-home pay of another has to be paid to HMRC. By maximising the arable area of the farm and increasing the size of tractors and other machinery, fewer workers are needed. Employment taxes have to be paid when an employee starts work, but tax allowances for depreciation can be deducted from profits as soon as machinery is purchased. It is no wonder that the number of full-time workers on farms has declined and the size of tractors has increased.

Some farmers are dependent on subsidies because they have recently bought land and need the subsidies to cover the cost of borrowed money. The current market price of farmland is almost five times what is justified by the price of farm products and their costs of production. Many farmers try to maximise the area of land they own in the belief that large farms are more efficient than smaller ones. This can be an illusion if efficiency is not defined.

The only measure of efficiency which reliably increases with increases in farm size is output per person employed. Other measures such as output per unit area or per unit of invested capital, seldom do. Genuine economies of scale are difficult to find in farming, especially in large businesses. The proprietors of large farms may have high incomes but accurate analysis seldom finds economies of scale. Small farms are often assumed to be unviable and whenever one is sold it is usually a neighbouring large farmer who is the buyer.

A few years ago a nearby farm of about 180 acres was sold and was bought by a neighbouring farmer. The retiring farmer had grown wheat and potatoes and kept cattle and sheep. He was obviously making an adequate profit and no one would say the farm was unviable. He had inherited the farm from his father and had no rent to pay. After the farm was sold it became unviable to farm as an independent unit because it cost £1.2m. It was the price which made the farm unviable, not its capacity to enable a competent farmer to make a living. Those who bought the farm could afford to do so because they already own a lot of land and can spread the cost of their new purchase over the whole area of land they own.

There is an effective monopoly of land ownership when only those of us who own land can afford to buy any. The biggest obstacle to young people wanting to become farmers is the high price of land. Subsidies and the current tax system heavily favour the ownership of farmland. Inheritance Tax and Capital Gains Tax are completely avoidable and so speculators are attracted and help to keep land prices above what newcomers can afford. Farmers' leaders always support calls for many more young people to be able to become farmers but refuse to back the radical tax reforms needed for that to happen. High and rising land prices are assumed to be beneficial to farming but I regard them as a curse, brought on by a perverse tax system, which punishes employment and enterprise. A few farmers have become very rich under the present tax system but farming has suffered by preventing newcomers from making a start.

Instead of fearing the competition from cheaper produce imported from outside the EU, farmers should be thinking of what is needed to improve their methods of production and reduce their costs. Not all farmers use existing technology to minimise diseases in their crops and livestock, nor do they pay close attention to reducing their costs.

The most important change, which they should call for, is radical tax reform to improve the national economy. It is said that a prosperous country needs a prosperous agricultural industry but I contend that a prosperous agricultural industry needs a prosperous country.



The Covid epidemic in the UK has revealed the fragility of the national economy, which has become seriously imbalanced with a small and shrinking manufacturing sector and a large and rising service sector, especially in finances. Economic commentators are keen to praise the financial sector's contribution to the national economy in terms of GDP but GDP is a poor indicator of national prosperity. The *P* in GDP stands for "Production" but the financial sector produces very little, more than 90% of the profit it makes is through trading with other people's money, mostly from those who borrow for mortgages to buy landed property. Lending to firms and individuals for the production of goods and services amounts to about 3% of their total lending. Banks prefer to lend for the purchase of houses than for productive industry because the collateral value of a house minimises the banker's risk of loss should the borrower fail to repay. The risk of failure is greater when lending is for starting or expanding a small business and requires the lender to have the skill to assess the competence of the borrower.

A responsible government would rebalance the national economy by removing the incentives for owning landed property such as freedom from Capital Gains Tax on the sale of houses and exemption from Council Tax on derelict and unused land. Encouragement should be given to investment in productive industry instead. I favour the abolition of Value Added Tax (VAT) and all taxes on earned incomes, because they inhibit employment and enterprise. National prosperity would be greatly increased by their replacement with the collection of the Annual Ground Rent (AGR/LVT) of all land and other natural resources such as the electromagnetic spectrum.

VAT is the worst of taxes and costs the national economy at least two pounds for every pound collected. It hurts the poorest people most: even those who rely on benefit payments have to pay it. I am sure that there will be less need for welfare payments when unemployment is reduced and national prosperity will increase. Farming will become more profitable because employment costs will fall and customers will be more able to buy what farmers produce.

I am often asked why, as a land owning farmer, I am in favour of replacing existing taxes with an annual charge on the rental value of our land. The charge on land will be based on its productive capacity which means that those who farm in more remote and unproductive areas will pay much less per acre. About ninety percent of the land area is rural but its rental value is only about ten percent of the total, conversely, ten percent of the land area is urban but its rental value is ninety percent of the total. This means that the owners of urban land will pay most of the AGR. The market price of the land we farm will fall when speculative investors are unable to profit from simply owning land. Its current high price is of no advantage to us because we do not want to sell. I cannot say how much AGR/LVT we would pay, but it would be closely linked to our ability to pay. Under the existing regime we have to pay wages at the going rate related to our employee's skills irrespective of whether the farm is profitable enough to pay.

Compare that with rent. When we negotiate rent with a landowner, the amount we bid is based on the profitability of the animals and crops we plan to produce. The payment of AGR/LVT instead of existing taxes will be close to what we can afford to pay as efficient farmers.

Following the introduction of AGR the owners of large areas of rural land should also benefit from the removal of employment taxes they pay for their staff and since the rental value of most rural land is low AGR rates will also be low. Those farming more productive land will, instead of trying to maximise the area of land they farm, try to optimise the output per unit area to maximise their profits. Land, which is remote from farm steadings, is usually less profitable because of the increased costs of transport to care for animals or cultivate crops. Some will find that they are more profitable by reducing the area they farm and this will increase the availability of land for newcomers to start farming or provide suitable habitats for wildlife. The removal of income taxes and VAT will enable more young people to be gainfully employed, even in remote areas and this will reverse the trend towards rural depopulation. Community buyouts of land in the highlands and islands of Scotland have improved the standard of living but young people are still unable to remain there.

Employment taxes are often the difference between a business being financially viable or failing and it is wrong that the same rates of tax are charged in these places as in more advantageous areas. Because All Taxes Come Out of Rent (ATCOR) the total amount of AGR/LVT potentially available for collection is sufficient to fund all the necessary functions of government and could provide for improvements in education and welfare or a basic national income for all because AGR/LVT has no inhibitory effects on employment and trade: it stimulates them through optimising the use of land and maximising opportunities for employment.

I believe that farming can be profitable after Brexit, with the removal of subsidies and the abolition of harmful taxes. Young newcomers to farming will be able to obtain land at an affordable price. The fundamental features of successful farming have not changed in my experience: make sure the land you farm is not too dear, whether bought or rented; do not have all your eggs in one basket and do not pay others to do what you can and should do yourself.

The national economy can also recover from the current recession and houses can be afforded by those who want to rent or buy. There is an alternative to a return to the economic shambles of the last few decades, which has seen the rich become richer and the poor become poorer. Radical tax and monetary reforms are the answer to budget deficits and welfare cuts. 🇬🇧

### *Editor's note:*

*Duncan Pickard Ph.D. is a former lecturer at the University of Leeds.*

*He has been farming in Scotland since 1992 in partnership with his wife, two sons and their wives on 650 acres they own and more than 1,000 acres on contract and short-term leases.*

*Lastly, Pickard is also a prominent member of the Scottish Land Revenue Group.*