

THE PROTECTION OF AGRICULTURE

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INTRODUCTION

IN the last two articles of this series, passages have been selected from the writings and speeches of four men, Gournay, Turgot, Cobden and Cavour, who were of one mind in expounding the simple principles of free trade. Today we find the T.U.C. and the Government opposed to these principles, and they attempt to distinguish their import control policy from the traditional protectionist arguments on two grounds.

First it is argued that the present situation, an economic recession, calls for protective first-aid. Gournay, Turgot, Cavour, and to a lesser extent, Cobden, were confronted not by an economic recession, but by the stark realities of famine and starvation. Yet it was precisely at those times that they upheld free trade, because it was the means by which distress could be relieved. Nor is the import control policy a spontaneous inspiration in answer to the present recession. In essence it has a parentage which can be traced back for centuries, and in form it owes its birth to the demands of Mr. Clive Jenkins, whose Welsh logic seduced the T.U.C. earlier in this decade. The T.U.C. adopted the import control policy, not on economic grounds, but because it was a policy which had gained widespread support from their membership. The policy was accepted by the Government as the price of the T.U.C.'s co-operation with the incomes policy.

Secondly, it is argued that because the import policy is a temporary and selective policy, it is not protection; rather, it is an intelligent tool of economic management. Who can say how temporary? One matter which is quite certain is that the policy is being introduced by popular demand and accordingly it cannot be withdrawn by the will of this Government. Who can define the bounds of selection? Like a child turned loose in a sweet shop, the Government's selection will be as catholic as their appetite (for votes). If the policy "works" everyone will want to undergo its therapy.

IN BRITAIN governments have always meddled with agriculture but never have they protected agriculture for agricultural reasons. Protection is a crude tool to win votes. During the last century and the early decades of the twentieth century the agricultural vote was stronger and better represented in Parliament than it is today. But today governments play with agriculture to win the larger urban vote. Thus they hold down the price of milk, for example, at a level which barely covers the costs of production. Farmers lose the will to produce, and within a few years the urban dweller must face a shortage of milk supplies. To encourage the farmer to produce again the price of milk has to be raised or

subsidies have to be spread around. But to secure milk supplies for the future, farmers need to raise calves this year. Fiscal manuring does not by-pass the natural cycles. Can it be pretended that government interference is anything but a losing game for both the farmer and his customers? The game is not only costly and inefficient, but it is also very dangerous. The French Revolution, the Russian Revolution and the recent rising in Poland were all triggered by food shortages; rather than by shortages of government measures or management.

Agriculture is important to the economic life of all nations, but no more important than food is to the life of an individual. It needs no protection, for it



can withstand the rigours of nature and it can prosper best when left to itself and when the whole economy is free of government meddling. If an individual were asked how he had helped his digestive system today, he could truthfully reply, "By doing absolutely nothing." When an M.P. is asked how he might help agriculture next year, why is he not equally as perceptive or as honest?

Agriculture is a universal occupation and its daily customer is mankind. Yet we read in the writings of protectionists, of a separate entity called "British Agriculture." The farmer likes it, because it relates his labours to something more than the farm gate and the cowshed. The urban consumer does not question it, because, bred on the country cackle of Ambridge, he imagines that protection of "British Agriculture" means more food for his stomach or that he is in some way being protected from adverse forces. The phrase is, however, a fiction no less than the term "British Sun" or "British Rain," but, alas, not as empty. "British Agriculture" invokes the dream that with a little more protection, this island would retreat behind external tariffs and spread a national feast. Undoubtedly far greater production *could* be sustained in Britain—given greater freedom from government interference and oppressive taxation.

Among the leading nations Russia, perhaps, has meddled the most disastrously with agriculture. The

Russian harvest is the Achilles heel of the Russian economy, and therefore of its Government, and its repeated failures cannot be put down to the climate.

Farmers somewhere must feed the Russians when, for whatever reasons, they are unable to feed themselves. Agriculture may be the Achilles heel of the Soviet state, but nevertheless it offers great potential for world peace. The recent agreement between America and Russia over grain purchases is of more practical benefit than summit conferences over space programmes and all the forms of arms'-length co-operation. This agreement is proof that the U.S. Government learnt from their experience of the "Grain Swindle" of 1972. It is, nevertheless, an episode which points to a moral for protectionist governments.

During 1972 President Nixon was warming up for the presidential election. Running through a checklist of election priorities, his aides paused at the agricultural vote. The grain markets were depressed and a lift in prices was of greater concern to the farmers than the election of a President. The farmers were not in favour of artificial price rises because they knew any stimulus in the form of election handouts would bring more grain on to a saturated market, which would soon lose the immediate interest of a new President. In April 1972 officials from the U.S. Department of Agriculture (U.S.D.A.) visited Moscow to attract Russian purchases. They did not know that half of the winter wheat crop in the Ukraine had been lost during the severe frosts of the winter of 1971/72, for the Russians, who are normally exporters of grain, did not reveal their shortages. Later that year the U.S. Agricultural attaché in Moscow sent home a report that Russia needed to import ten million tons of grain. Although this figure was an underestimate of about 100 per cent, it was about five times greater than the official American estimates.

When this report was filed in July, three officials of Exportkheib (Grain Export) arrived in New York with orders to buy what they could. Their first call was to the offices of Continental Grain Co., one of the largest grain merchants in the world. The Russians asked for a firm quotation of wheat prices, and that called in question the export subsidy which the U.S. Government offered to foreign grain buyers. The Senior Vice-President of Continental Grain Co. called at U.S.D.A. to confirm that the export subsidy would be extended to Russian grain purchasers. Without

questioning the size of those purchases, the official at U.S.D.A. stated emphatically that subsidies would be paid to hold the export price in the grain markets at \$65 per ton. "Good," said the Russians, "we will take four million tons of wheat and four and a half million tons of animal feed grain at no more than \$65 per ton." This was the largest grain order ever known; a large order on the London grain market is about 50,000 tons. Continental Grain Co. still had to buy below \$65 per ton to make any profit and they had to arrange shipping, so they were discreet. The team from Exportkheib wined and dined with other grain merchants until they had signed contracts for twenty million tons of grain. In September U.S.D.A. realised what had happened and set a deadline for the registration and the shipment to the Russian purchasers. Then ensued a scramble to move the grain to Russia which threw the railroads to the U.S. ports into turmoil. The shipping markets of the world were soon monopolised by this gigantic contract. Months later American housewives fought at supermarkets to buy bread, whilst the gold markets rose so that the Russians bought even more cheaply.

Farmers who sold before the grain market had realised the scale of the Russian purchases, felt they had been swindled; the merchants who had handled the Russian contracts claimed to have lost money; and many Americans sensed that they had been swindled. They had been. But not by the Russians from Exportkheib who had acted shrewdly, but quite properly.

When protectionist thinking is in the ascendant, governments are tempted to pursue policies which reflect all the fears and prejudices of an island people. Today's argument that home production saves foreign exchange, will become tomorrow a cruder belief that Britain's weakness is due to its dependence on foreign imports of food. During the last decade, protectionist thinking has divided trade into two warring camps; on one hand an import is a minus and on the other an export is a plus. The inexorable logic of this division is to restrict imports and to pray for exports. The natural relationship between imports and exports is more harmonious. By analogy, an inward breath may be linked to an import and the outward breath to an export. By simple reasoning, it is clear that an artificial restriction of imports applies commensurately to restrict exports. Whilst it may appear that trade is an exchange of goods and services for money,



it is in reality an exchange of goods for goods (or services). All trade in essence is barter.

Another catch phrase of protectionist thinking is "British Trade," but, like "British Agriculture," it is

a fiction. Trade is not conducted between Britain and, say, America; rather it is arranged between a buyer and a seller. If either of these parties is resident across a frontier or an ocean, does the difference in itself bring Britain and America into a relationship of trading partners? Is this trade of more national importance than an individual's purchase of a newspaper in the street? Perhaps the trading between, say, an English buyer and an American seller does bring the two governments into an indirect relationship when governments support "fixed" exchange rates. But this economic folly was recently exposed, much to the chagrin of the French protectionists who see a common and "fixed" European currency as the vital tool of European protectionism.

Returning to further examination of the term "British Agriculture," it may be remembered that both Cobden and Cavour had glimpsed the simple fact that protection of agriculture did not confer an equal benefit upon farmers. There are three distinct economic orders of farmers. First, the farmer who owns his land absolutely. He is not directly affected by a rise in interest rates, but a rise in rents allows him to collect that rise if he leases. Secondly, the farmer who owns the freehold subject to an outstanding mortgage. Clearly he will be squeezed by a rise in interest rates. Thirdly, the farmer who rents land. His lease may run for any period and his rent may be fixed for any period; the longer the period the more his situation resembles that of an absolute owner and the shorter the period the more that of a tenant. (For the purpose of the following illustration it will be assumed that a tenant farmer holds a lease under which rent is reviewed every seven years). A rise in interest rates will affect a tenant's borrowing and he will feel a rise in rent every seventh year.

Suppose a government excludes foreign imports of food below a tariff price, it is fair to assume that in a nation which imports as much food as Britain, the domestic price will seldom fall below the tariff price. Agricultural rent is dependent upon many factors, but primarily upon the level of prices, subsidies and other state aids. Assuming for the moment that protection causes a rise in prices, the tenant farmer gains the benefit of these rises for seven years until his rent rises to absorb them, but the owner gains the benefit for as long as they continue. This is true also of all advantages bestowed upon agriculture—whether pecuniary or otherwise.



So to speak of "British Agriculture," as if it concerned all farmers alike, is to overlook the basic difference between an owner farmer and a leasehold farmer. The difference can also be illustrated by the converse. When prices are falling, rents will fall but

the tenant over a period of eight years will not suffer as an owner farmer will.

But, it may be argued the Common Agricultural



Policy has stabilised agricultural prices in Europe below the world level by communal stockpiling and by artificial exchange rates between community members, which produce such complex phenomena as "Green Pounds"¹ whereby member countries are subsidising food prices in Britain. But just as government, or inter-government interference can sometimes catch the markets at the right time, so within a short time by the immutable laws of gambling, they will catch it horribly wrong. The next decade will show how ephemeral are the benefits of the European agricultural policy—if this policy can withstand free rates of change for so long. For low prices caused by artificial means discourage production, and when for natural causes, prices rise again, they will rise that much higher than they would have without the preceding intervention.

As Cavour said there are two orders in the Universe, the order of facts and the order of principles. The sure future of the European Economic Community cannot lie wholly in the realm of changing and unconnected facts. The principles concerning trade inevitably settle on the struggle between the prejudices of protectionism and the ideals of free trade.

To conclude these three articles is a sentiment from Cobden, writing in 1846; it yields more clearly the expression which has been intended throughout. He wrote after the repeal of the Corn Laws:

"I do not think the nations of the earth will have a chance of advancing morally in their domestic concerns to the degree of excellence which we sigh for, until international relations are put upon a different footing. The present corrupts society, exhausts its wealth, raises up false gods for worship, and fixes before the eyes of the rising generation a spurious if glittering standard of glory. It is because I do believe that the principle of Free Trade is calculated to alter the relations of the world for the better, in a moral point of view, that I bless God I have been allowed to take a prominent part in its advocacy."²

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Author's Note: Henry George's book *Protection or Free Trade* is a classic. Nobody could hope to demonstrate the *complete* case for free trade better than he did, but his contribution is outside the scope of this particular study.

1. Explained more fully in *The European Greenhouse of the European Common Agricultural Policy*, to be published in 1976 by the Open Seas Forum.
2. *The Life of Cobden* by J. Morley p 411.

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