Agricultural policy affect consumers

[Business](), [Industries]()

The CAP is an EU organisation designed to support agricultural prices and farm incomes as well as ensuring regular supplies. It also stabilises the agricultural markets and increases agricultural productivity and efficiency. In 2000 the EU paid out 43, 000, 000 Euros to farmers; it comprises 46% of the EU's budget! The CAP supports farmers incomes in three main ways: 1. Intervention Price: this is the price the EU guarantees farmers will receive. If they cannot sell produce on the open market the EU will buy up the excess at the intervention price (which is usually above world prices)

2. Import levies: the EU imposes levies onfoodimported into the EU from the rest of the world so that they become uncompetitive in European markets. This means EU farmers do not face tough competition from abroad. 3. Export Subsidies: payment to farmers who manage to sell their produce outside the EU. This reduces the surplus that has to be bought and stockpiled by the EU. Although after extensive research I have concluded that CAP should add 8 per week to the cost of living for the averagefamilydue to higher food prices and extra taxes necessary tofinancethe CAP. Is this increase worthwhile to the consumer?

High prices encourage farmers to intensify their operations which would result in the removal of hedgerows, walls, ditches as well as an increase in the use of farm chemicals; all of which are negative externalities. Most developing economies have a comparative advantage in producing certain types of food and yet the import levies that are implemented by the CAP means that the consumer has to pay more for the same good.

The consumer has less jobs available to him because farmers use up an excessive amount of resources (capital, land and labour) in their attempts to increase output and in turn their profits. The CAP causes allocative inefficiency which will harm consumers in the long run because it lowers GDP and harms growth levels. Possible reforms: Cutting the intervention price would lower the output of farmers and eliminate the surpluses which would result in a lowering of import levies. However the lowering of this price would (in remote areas) result in depopulation and the end to the aesthetically pleasing countryside that we have come to expect nowadays.

The government could impose supply controls such as issuing quotas to farmers which would eliminate the excess supply. However this is an inefficient policy because it restricts the expansion of small businesses and requires an expensive bureau to administer. The government could demand more set aside lands (currently at 5%) which would lower supply however this has limited impact because farmers always select their least productive fields as set-aside and it is a blatant waste of key resources. The government could give farmers direct income support instead of price support by determining farmers pay by social and environmental factors (net income, preservation of the landscape and reductions in use of farm chemicals). This would protect farms and at the same time not give farmers a juicy incentive to produce more than in necessary.

Conclusion:

The CAP has significant costs to the consumer; the most significant being higher taxes however one must recognise the undoubted importance of farmers to society. This dependency on farmers means that somehow consumer must fight to keep farmers going in order to have a constant and hygienic food supply, be it with income support or price support. My personal choice would be income support because this would eliminate the mass of beef and other produce which have piled up over the last few years (which represent a waste of resources).