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The De-Capitalisation of the Managed Landscape

The De-Capitalisation of the Managed Landscape promoted by Support Payments

What is "Natural Capital" and how might it be valued? This is a common question in farming and in those non-farming public constituencies that express concern about the perceived degradation of *Nature* in our society.

Unless natural capital can be defined in quantitative terms, such as £ sterling, it will languish in a confusion of qualitative, and meaningless, measures. Surely, the value of the natural capital on a farm is simply the capitalised value of the income stream that can be entirely attributed to the natural resources being farmed. Using the MSO economic model of the farm, where variable costs are de-composed into a productive-component (PVCs: relating to working in harmony with Nature) and a corrective-component (CVCs: substituting for Nature with artificial inputs), the income stream attributable to Nature and the natural resources being farmed is simply the pre-support revenues less the PVCs. The effect of incurring subsequent costs in the form of CVCs and fixed costs simply reduces the natural capital value of the farm. This process of reduction is known as attenuation.

Farm profitability can be measured in many different ways but the most logical system reflects a pragmatic hierarchy.

- The first objective of any business is to cover its variable costs. Failure to do so means that cash is being lost on every transaction. Such businesses are intrinsically unviable. If we define the 1st contribution to profitability as pre-support revenues less variable costs, we believe that about 18% of British farms would fail to achieve a positive 1st contribution.

- The second objective of a business is to cover its variable and fixed costs. Failure to do so means that the business is de-capitalising. Such businesses eventually go bankrupt. If we define the 2nd contribution to profitability as pre-support revenues less all variable and fixed costs, we believe that about 80% of British farms would fail to secure a positive 2nd contribution.

The 2nd contribution of a business should be positive enough to support finance charges, capital investments and a fair draw for the farmers and their families. Even within the residual 20% of farms that have a positive 2nd contribution almost none would meet these requirements. So how do farms continue to exist as businesses? The answer is to be found in the various support mechanisms and grants that are available.

- After such support payments are taken into account, defining a 3rd contribution to profitability, only 20% of British farms fail to return a positive 3rd contribution. Undoubtedly, it would appear the support payments have had a transformational effect. Certainly, the support mechanisms transform local economies but the impact it has on the de-capitalisation of natural capital has been either neglected, or ignored, or (more likely) not appreciated by economists.

Support payments do not address the underlying de-capitalisation taking place on 80% of British farms; it merely masks the impact. Even worse, it represents a mechanism that always (inevitably) ends in collapse. Support payments are drawn from an "external" environment. In this case from tax revenues drawn from the wider economy. Mathematically, this corresponds to a positive-feedback mechanism. Over time nothing in Nature is driven by anything other than systems with negative feedback mechanisms; it is the guarantee of its natural state of equilibrium in the guise of the managed landscape. All systems with positive feedback mechanism collapse (often catastrophically) as the "external" support disappears (as it always will). The collapse in farming will be the destruction of its natural capital.

By way of an analogy, consider the continuously critical state of credit in the economy. We have a fiat currency; it has no intrinsic value. It is printed and only monetary control policies can keep it in check. The positive feedback flaw in our system of credit is that when credit is offered it is treated as a security in a way that it allows even more credit to be advanced. Every 40 years or so the banks have a liquidity crisis and the whole system collapses (only to be reformed to repeat the cycle).

Eventually farming needs to be re-structured to survive entirely without support. This means price rises at the farm gate and usually, at this point, our politicians shrink from tackling the issue. If farm gate prices were to double and the additional costs were simply to be passed up the supply chain as a cost it is unlikely that shelf prices would increase by more than 5%. The problem is that costs do not get passed up the chain as the system is based on trading percentages.

Attractive though it may seem, there would be other problems to solve if support payments were removed. In the livestock business the principal stumbling block is the role played by abattoirs. These businesses perpetuate the mechanism of commodity pricing and act as a barrier to the exercise of farmer-power. To be fair, the role abattoirs play in putting revenue into farm businesses at an early stage should not be discounted but these businesses themselves are on the brink of fundamental change. Town-centre abattoirs are frowned-upon now, but in occupying valuable house-building land these businesses have profitable exits. Abattoir closures are an increasing problem. Simultaneously, live animal movements are now frowned on by the urban elites but no real solutions have come forward to offer credible on-farm slaughtering services.

With the demise of BPS, more reliance is being placed on "environmental" payments that reflect "paying farmers for public goods (in the form of a better environment)". These payments often come with prescriptions that take land out of optimal production. This approach is doubly-flawed. Firstly, the prescriptions assume that Nature will automatically (and happily) deliver a new pristine environment with greater bio-diversity. In reality it will always deliver a surprise and a dominant species until a new point of equilibrium is reached with the residual managed landscape. This might take decades or even centuries. Secondly, in those cases where farms have reduced output to take full advantage of "environmental" payments, the loss of profitability has never been compensated-for properly by the support payments.

Farmers are learning the new realities; more government intervention is never the solution to a problem – *it is the problem.* Farmers must now take control of their own destiny.