

# Agriculture, Coronavirus and the following Recession in the UK

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Anything that makes a toilet roll more valuable than a barrel of crude oil is going to make us think. When the Bank of England sells gilts with a negative yield to willing buyers (which has never happened before in its 320-year history), you know you should hold onto your hats. We have all lived through several decades, this year alone!

A third of the UK economy was closed down in March 2020 and another third of it sent to work from home. It has since been reopened gradually at Government's choosing. Farming carried on. An economy is a complex network of relationships, trade, and consumption which is constantly changing. Freezing, then thawing an economy will have the effect of freezing salad, not meat; it will incur lasting damage. Reconnecting business links will not be instant and demand for some goods may have declined or switched to other solutions. Thankfully for farming, the demand for food, will have changed less than most other goods.

One reassuring thing about the food sector is that regardless how the supply chain is structured and who gets the food ultimately to the consumers, we all need our 2 or 3,000 calories a day, pandemic or no pandemic, job or no job. Whether we are worth billions or nothing, our food requirement is similar in volume and calories. And to the commodity producer, the purest part of agriculture, the ultimate financial value of the food at the point of consumption, makes relatively little difference as most value is added to it after the farm. We could argue the nuances of minced beef versus fillet steak, but you get my point. Whilst some supply chains were briefly affected whilst they were re-routed through retailers instead of food service, agriculture and the entire food supply chain can be complemented on how remarkably resilient it has been. *Nobody went hungry since the start of lockdown as a result of food supply chain failures.* That is something for the industry to be proud of. It is a responsibility that was taken seriously.

Consumers did eat slightly different food whilst at home than when they are at the fast food outlets, pizza houses, fine dining restaurants for some or indeed in their cars. But, whilst consumers appeared to be eating less, they were in fact simply wasting less! That is wonderful news despite the considerable cost it placed on agriculture of course. Food waste in the home fell by over a quarter in lockdown and hotel waste simply stopped. Food waste probably fell by more than the total decrease

of consumption, suggesting any decline in demand experienced was because greater care was taken with food. Waste reduction is a good thing (regardless of the cost to farming).

Other differences in consumer preferences might emerge as we experience the force of the recession and feel poor again; recession will probably change consumption habits more than lockdown did. Usually, we head for value goods, choice becomes less important and the urge to feed our conscience becomes less affordable. High value foods with certain standards such as organic or other marks of production, tend to become less important when the basic needs of feeding the family are more costly.

Agriculture may not directly feel the recession (or dare I say depression) we face; we will supply 3,000 calories per person a day. Such a flat demand for goods is tough for farming in times of rapid economic growth, but when the proverbial Black Swan flies, farming keeps going. The Black Swan is the factor that is unforeseen, or not predicted. It is the event at the end of a long tail in a statistical curve, some refer to as bell shaped curve. The thing that is unforeseen and seldom happens, but when it does, it makes a big impact, changes the way we act and think, and usually costs us dear. To most of us, COVID-19 was a Black Swan.

The Government debt that will have built up since January will be enormous, certainly the highest since the last world war, perhaps much longer. The capitalist will largely pay for it, and that includes many farmers and rural entrepreneurs. It is clear the country has no appetite for austerity, and arguably, when the economy needs to grow rapidly, austerity would be the wrong policy anyway. There are 4 ways of reducing Government debt; Default, Economic Growth, Taxation, and Inflation.

No country would opt willingly to default on its debt, Mr Sunak, the Chancellor of the Exchequer is relying on investors buying his treasury bonds (gilts) to finance his lockdown spending. He will not be able to do this if Government defaults.

Rapid growth will help get people back into work. It will require softer business regulations and free market encouragement. Laissez-faire free market economics will fill gaps in the economy, left by society when it bolted for safety. Adam Smith in his Wealth of Nations explained the concept of Spontaneous Order, whereby entrepreneurs find spaces in the economic network just as a river

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finds and fills low voids. Government and planned economies are less adept at this; no protectionist economy in the world was subsidising the manufacture of face masks. Protectionism has a role, but politicians do not know what to subsidise, nobody does for sure. In this situation, manufacturing is a more robust way to regenerate an economy. Making physical things, that can be exported, and that will then generate secondary service industry business magnifies the benefit. Primary manufacturing generates more employment. It is often low paid, but it gets people back to work.

Tax increases on the 'have's' are inevitable. Farmers are generally in this cohort, by assets at least. Those with income may bear the brunt of higher taxes but also those with property, or other assets could face large tax bills. Wealth taxes might appear. This is a tax on all assets that you have accrued, including investments, businesses assets and property. Capital Gains might be taxed more. Both could affect farming. Whilst taxing the 'haves' is more fruitful than the 'have nots', it is unfortunate that such taxes penalise those who have been prudent and mindful of their future whilst others with similar incomes and an addiction to frivolous consumption would not.

The only person who benefits from inflation is the borrower. Inflation erodes debt as fast as it erodes assets. Land value is not proportional to its earning capacity so would not *necessarily* rise in value at the rate of inflation, that is, unless it is seen as a safe asset and many people try to secure their capital into farm land, knowing it will still be there in a few years' time, something you cannot say for certainty about any business.

The farmer, as manufacturer of commodities makes one of the more inflation-proof assets. Commodity values fluctuate faster than most other assets or consumables, when exchange rates between currencies shift and as costs change, they tend to lead the way with inflation. Other costs tend to change periodically or annually, think about your salary for example.

Read Adam Smith again. He points out that capital in business flows in 2 directions, to the labour force or the business owners. Government has looked after the worker and the entrepreneur but will not support the capitalists; it is they who will lose value in their shares when the dividends are cancelled again. Those with capital will suffer from inflation when it goes up and will pay more in tax. If you don't consider yourself in any way part of the capitalist society, it is time to check your pension arrangements and what it is invested in. If the day of the capitalist is ending, the day of the entrepreneur is possibly dawning. Free trade is the best way to re-establish supply chains that are not so fragile, those prepared to invest in new ideas will flourish in these times.

Innovative people used lockdown time being thoughtful and creative. Many more patents have been registered than usual this year. This might be because there is more time on people's hands, but also as the world has changed and new ideas are required. Change creates threats, and opportunity. What you find depends which you look for.

The world must recover from COVID-19 whilst undergoing decarbonisation, removing greenhouse

gasses from our lives. This will be one of the big issues of the 2020's. The virus has helped; whilst in lockdown, fossil fuels have accounted for less than 15% of electricity generation in the UK. This is a scoop for the renewables sector of course. As we emerge from the pandemic we must simultaneously emerge from our addiction to fossil fuels, our love of the car, the plane and other green-house gas emitters. There are lots of things the food supply chain needs to take on board. If it is *really* going to become carbon neutral then massive changes are required, rather than adjustments and improvements to current systems. Defending our current ways with new numbers will not wash.

According to the Economist, despite half of the world population in lockdown of some kind at one point, the demand for coal only fell by 8% and 5% for oil. The International Energy Agency estimates global emissions will fall by 8% this year taking us back to 2010 levels. Is that enough? Not really. Since March 2020, the UK economy shrank 22 percent shedding 17 years' of economic growth in 4 months taking it back to its size in 2003. The maths is not great for the environment.

Several ideas are emerging that might reduce farming's carbon emissions, some substantially. For example, clever biochemists have learnt how to manufacture meats and milks, without the need for animals and will be trying to roll this technology out to the market in the coming few years. This could solve many of farming's problems such as animal diseases, animal welfare, greenhouse gas emissions, and insufficient land. But it might cause only one big problem for farming, it will be less needed!

It would be an environmental boon, if society could learn at least a few small lessons of constraining unnecessary consumption. But the world is eagerly consuming again: The streets of Chinese cities are more congested than this time last year.

Lockdown reminded us of the fabulous uses for plastic. It returned as the standard packaging for food delivery, and with its properties of keeping food fresh for a longer time, might have a useful resurgence for a while. Let's dispose of it wisely.

This viewpoint has not been about the virus, as the world will remember it for its economic impact rather than the illness. Each physical death is clearly a tragedy, which medics with their medicines tried to minimise. But the insolvencies will continue long after the doctors leave the headlines. I admire the work of medics, but they are primarily for helping the sick, not keeping people healthy. For our health, I thank the food supply chain, the farmers, processors, hauliers, retailers and yes, the person who delivers the food unfailingly to my door. All that, and so often on the living wage. That is who I applaud for keeping me safe and well.

## About the author

**Graham Redman** is a Partner at The Andersons Centre and Editor of the John Nix Farm Management Pocketbook.