

A FUTURE POLICY IN THE GENERAL INTEREST

Counterpoint

A l'avenir, une politique de l'intérêt général

by Secondo Tarditi

Eine zukünftige Politik im Sinne des Gemeinwohls

The profound commitment of the Commissioner for Agriculture, Franz Fischler, to improve the Common Agricultural Policy (CAP) is beyond any doubt. His dedication and endurance in what he describes as *"the core question of all my professional activities"* (Euro Choices, Summer 2002, page 7) rank him at the top level among CAP policymakers, probably second only to Sicco Mansholt, the founding father.

In his Guest Editorial, he tackles the very fundamental concepts guiding agricultural policy and makes frequent references to philosophers, from Aristotle to Hegel. His repeated references to the need for agricultural policy to *"meet the concerns of society"*, *"serve the interests of wider society"* (page 7), are highly laudable, especially given his role as a sectoral policymaker under strong pressure from vested interests. Such references are in tune with the Aristotelian classification of governments based on their attainment of the common good.

"Perfect" and "degenerate" policies

Aristotle classified as "perfect" governments and policies aimed at promoting the common good, while he classified as "degenerate" those aiming to promote the private interests of individuals or social groups which contrast with the

common good.¹ The history of a sectoral policy such as the CAP is an interesting case in point, where particular group interests are very often in conflict with the common interest.

In his article Fischler says, *"When the agricultural ministers met in the Italian town of Stresa in 1958, to establish the CAP it was just logical that they listed as the first objective, to increase agricultural productivity"* (page 8). Increasing agricultural productivity (production per unit of input), is a basic economic objective, leading to a better allocation of resources and to greater overall efficiency. Such an objective is surely consistent with a "perfect" policy, according to the Aristotelian classification.

Unfortunately, after 1958, agriculture ministers either misunderstood, confused, or willingly misinterpreted this concept and increased mainly agricultural "production", without much concern for productivity. Fischler continues, *"In the late 1970s, thanks to the CAP, Europe reached and passed the level of self sufficiency"* (page 8). If, however, we can hardly find justification for price supports for agricultural commodities in the sixties (in terms of improving the existing low level of EEC food self-sufficiency), maintaining these up to now certainly cannot be justified in

terms of general interests. How can we justify increasing producer revenues² by 85 per cent for sugar, 77 per cent for wheat, 256 per cent for sheepmeat, and only 9 per cent for eggs or 20 per cent for vegetables and other commodities? Such high and divergent levels of support are mainly the historical result of particular interests, and of different strengths in bargaining power among producer lobbies not sufficiently moderated by policymakers or by other lobbies pursuing the common interest.

As a consequence excess resources, especially labour, remain in agriculture in numerous regions. Thanks to price support and direct aids the productivity of small farms in particular is barely acceptable in private terms, but very low in social terms, i.e. in terms of the real value of goods and services produced for society.

The present agricultural market policy is definitely "degenerate", as it involves a large waste of public money (surplus disposal, subsidies to land set-aside, redundant bureaucratisation) and high social costs (distorted production and consumption, idle arable land)³ in order to serve the vested interests of a very small minority of EU citizens.

Attempts to reform the CAP

Such criticisms of the CAP are not new, they have been repeatedly made by experts, and by the Commission

itself in various official documents attempting to reform the CAP. One of the most “perfect” proposals, consistent with the general interest, was presented in December 1968 by Commissioner Sicco Mansholt. But his proposed “structural reform” failed mainly because agricultural price supports were not substantially reduced. Farmers, understandably, invested large part of the structural subsidies in the most “rentable” highly price supported commodities. Private interests then diverged from the interests of society as a whole, with increasing surpluses, export subsidies, and an overall waste of resources.

Policy makers were (and are) subject to very asymmetric pressures. From one side they faced well organised farm interests defending the status quo and refusing to accept a reduction in their income. From the opposite side almost no-one was effectively lobbying for the interests of society as a whole, not even consumers who were bearing the largest costs. As martyrdom is not a calling among policymakers, the short-term interests of some groups of farmers have prevailed over the general interest.

Actually the prevalent strategy adopted in the last three decades was

not to eliminate, but rather to disguise the huge economic and financial costs generated by the CAP. Supply management policies constrained domestic supply by means of production quotas and then by means of land set-aside. Mountains and lakes of surpluses, highly visible to citizens in terms of blunt food destruction or high budgetary expenditure for disposal, almost disappeared. Unfortunately such policies probably did not reduce the real economic cost for society as a whole. How, for example, can we explain to citizens the social or economic rationale for spending annually over €bn 1.2 to pay farmers for not cultivating 5.7 million hectares of arable land, in order to reduce domestic supply and maintain high food prices? Why should households pay as taxpayers and again, probably even more, as consumers, for such manifestly “degenerate” policy?

A reform in the general interest

Reforms and “*simplification of our agricultural policy*” (Fischler, page 9) in line with the general interest should include both reforming market policy and strengthening rural development.

Market policy for all commodities should be limited to price stabilisation in the short term, without commodity-specific price or payment supports at producer level distorting the long term trends in market prices⁴. The existing support (price⁵ + aids⁶) should be quantified and phased out in a definite time span, say, ten years. All present commodity-specific payments and the new compensatory payments for sugar, milk, beef, etc. should be “degressive and temporary” with a precise deadline. This would avoid abrupt shocks in farm incomes while favouring structural adjustment and reducing costs of production. As a consequence, problems related to market and investment distortions, production quotas, land set-aside, modulation by farm size, extension of the *acquis communautaire* to new EU Members, would largely disappear.

Conditionality of present direct payments “*upon good agricultural practices*” (Fischler, page 9) is not a sufficient motivation for making them permanent. Farmers producing cereals and oilseeds do not deserve aids, disguised as “environmental” rewards, more than other farmers producing vegetables or flowers, for example. Moreover we should apply

the general principle, “polluter pays”, not the reverse, “polluter should be paid for not polluting”, as often happens in agricultural policy. Should government also pay citizens for not dumping home garbage out of the front door?

Strengthening the second pillar: rural development

In order to promote a competitive agriculture in a competitive economy, government should favour the inter-sectoral and territorial mobility of production factors, of labour in particular, by reducing the personal costs of moving to a new job, especially within rural areas.

According to *the principle of subsidiarity*, Brussels should not earmark rural development funds for agriculture, but rather should let local policymakers decide the best use of such public resources.

More resources could be granted to farmers in less developed or depopulated areas, or as a compensation for the extra costs of producing specific positive externalities or public goods, such as protection of the environment and maintenance of traditional landscapes. These may obviously be permanent if granted when and where such services are needed and increase the well-being of people in the region.

Such simple and transparent criteria will require fewer financial resources for a reduced and more productive number of people in farming. After a decade of transition, an increase in average productivity and a larger number of economically viable farms, together with the economically justifiable income aids, should guarantee a fair income to a larger share of farmers. Farmers are part of our society along with other citizens. In order to implement a “perfect” policy, governments should not allocate future budgetary resources preferentially to farming, but rather where they generate the greatest increase in the well-being of society as a whole.

I hope this “Counterpoint” contributes to “*cross fertilisation of ideas*” (Fischler Page 10) among academia and politicians and to reaching a dynamic Hegelian synthesis. Obviously Commissioner Fischler will not have an easy job in

“really” reforming the CAP. However it is probably the last chance for the EU not to extend such “degenerate” policy to the rest of Europe and thus make it most probably irreversible. If properly supported by honest farmer and consumer organisations, EU citizens would vote him not to martyrdom but rather to canonisation.

1 Aristotle, Vol. XXI *Politics*, Harvard University Press, 1932. (1932) p. 207. Monarchy for example may degenerate into tyranny if it is pursuing the personal interests of the king, aristocracy may degenerate into oligarchy if pursuing the personal interests of the few people ruling the country, and even democracy may degenerate if it pursues only the private interests of some people to the damage of the whole society (dictatorship of the majority).

2 OECD (2002) *Agricultural Policies in OECD Countries*, p. 189. The Producer Nominal Assistance Coefficient (NACp) measures the ratio between the value of gross farm receipts including support and gross farm receipts valued at world market prices without support.

3 Deadweight losses have been estimated up to 50 per cent of transfers to producers (Tarditi S. 2000)

4 It should operate as a “safety net”, as mentioned in the Mid Term Review proposal of the EU Commission (COM (2002)394). Such a “safety net”, however, should be implemented by operating on both policy instruments determining domestic price, border protection and intervention price. The MTR deals mainly with the latter.

5 The Commission has always been reticent on income transfers from consumers to producers consequent to price support, which according to OECD, in 2001 still accounted for €bn 57, about half of the total €bn 117 transferred to producers. The recent reform proposals included in the Mid-Term Review (MTR) do not mention such transfers and do not set a deadline for reducing price support.

6 Present direct payments, derived from the “compensatory payments” granted for the 1992 price reduction are not “decoupled from current production” for the simple reason that they are granted only to farmers who actually produce cereals and oilseeds and are still proportional to historical yields. Their distortive effect on farm investments and production structure is still very high, consequently it is not at all “*obvious that European farmers are responding to market signals*” (Fischler page 9).



Further Reading

- Aristotle, Vol. XXI *Politics*, Harvard University Press, 1932
- European Commission. (2002), *Mid-Term Review of the Common Agricultural Policy*, COM 394
- OECD (2002), *Agricultural Policies in OECD Countries – Monitoring and outlook*. Paris
- S. Tarditi (2000), *Consumer interests in the Common Agricultural Policy*. CIPAS, University of Siena.

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