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Europe's Agricultural Policy Facing New Alternatives

by Hans Christoph Binswanger, Ralph Gerold Anderegg, St. Gallen*

"If the right decisions are not now taken, the Common Agricultural Policy of the European Community may collapse. The hour of truth has struck for agriculture." So the Commissioner for Agriculture, Gundelach, in the spring of 1980 when appealing to the Members of the European Parliament "to support the Commission's moderate proposals for price increases and the proposed measures for reducing the agricultural surpluses"¹. This scenario gives great topical value to findings set out in a publication, "Europe's Agricultural Policy Facing New Alternatives"², of which we present here a summary. Its well-known authors have tried to map out routes to a less contentious agricultural policy for the future.

Time and again in past decades and centuries agricultural policy has gone through spells of pungent discussions about alternatives to the existing order. This applies to the foundation of agricultural liberalism which put an end to agrarian feudalism and the mercantilistic obstacles to trade (e. g., the export duties on grains) on the threshold of the 19th century, the inception of agricultural protectionism in opposition to cheap grain imports from overseas around 1880, the necessity of comprehensive administrative wartime regulation of agriculture in World Wars I and II, the foundation of the agricultural union of the EC in the fifties, and the opening-out of agricultural policy into a rural development policy in the sixties of this century.

These sweeping changes occurred at times when society and agriculture were subjected to strains and stresses beyond the political tolerance limits such as typically precede the transition from one epoch to another. If the 19th century initiated a structural policy for agriculture in the widest sense, the past hundred years have seen the establishment and extension of comprehensive agricultural market regulations of well-nigh "phantasmal" perfection (Priebe). While for almost a century measures in the fields of price, production and foreign trade policy combined with precautionary moves in the sphere of structural, social

and regional policy sufficed to improve the living and working conditions in agriculture, serious and growing doubts are felt today not only about the allocative effect of the conventional agricultural policy but about its efficiency from the point of view of income and income distribution policy. Such doubts are making themselves felt in all the interested groups – consumers, taxpayers, farmers, and environmentalists.

Diversity of Problems

The schedule of problems pinpointed by the individual authors is as diverse as are their proposals for agricultural reforms. Their specific critiques may be grouped according to subject matter under the headings of: (a) Economic principles, (b) Farming incomes and status aspirations, (c) Actual and anticipatory supply tasks, (d) Production, price and foreign trade objectives, (e) Regional policy functions of agriculture, and (f) Environmental and energy aspects.

(a) *Economic principles* are the point of departure for Priebe³ in particular. He looks on agricultural policy as an alien body even in a directed market economy.

¹ Frankfurter Allgemeine Zeitung, No. 73, of March 26, 1980, p. 13.

² H. C. Binswanger (ed.): Die europäische Agrarpolitik vor neuen Alternativen, 2nd edition, Verlag Haupt, Berne/Stuttgart 1979.

³ Cf. H. Priebe: Zur Lösung der Konflikte zwischen Einkommens- und Marktpolitik (On a solution of the conflicts between income and market policy), p. 9 ff.

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(b) In regard to *farming incomes and status aspirations* Riemsdijk⁴ draws the main attention to the disappointment of farmers' income expectations under the EC's agricultural policy. A majority of the authors refers to the year after year deteriorating income distribution within agriculture as another major shortcoming of an agricultural policy under the sway of price and production considerations⁵.

Priebe and Popp/Anderegg⁶ find fault with the strong bias towards the promotion of fulltime farming which can lead to a disastrous structural collapse of agriculture in disadvantaged areas lacking the preconditions for fulltime farmwork.

Smith⁷ takes a very pessimistic view of the future development of agriculture. He expects a distinct shortage of agricultural labour in about 20 years from now and lays emphasis upon the unsatisfactory quality of farm jobs over wide areas.

(c) On the *actual and anticipatory supply tasks* of agriculture the various authors express different views. Priebe is critical of the big increases of food prices, which if anything exceed the general rise of prices, Binswanger/Müller⁸ stress the consumers' growing resistance to high food prices, and Durand takes objection to the disparate effects of price increases on different classes of consumers. Marsh⁹ speaks in pessimistic tones of a danger of world-wide deficiencies. The massive animal feed imports cause Priebe to paint a rather gloomy picture of the potential supplies.

(d) The *production, price and foreign trade policy* is seen by all the authors – in keeping with the aggravating trend – as an extremely critical area. First and foremost there is the conflict between the price and income objectives of an agricultural policy which inclines too much to the level of price policy (Binswanger/Müller). A policy of high prices necessarily involves and perpetuates market, price and income instability and leads to a misdirection of capital and labour (Priebe), with equally unsatisfactory results for producers and consumers (Durand). Priebe, Marsh and Riemsdijk mention its strongly discriminatory effect on foreign trade, the destabilization of agricultural world markets in years when there is a surplus or a need for supplementary imports, and its particular implications for the developing countries. Moreover, the induced structural surpluses endanger the EC agricultural union as such by their effects on the budget and through renascent agronational aspirations (Riemsdijk).

(e) Priebe and Popp/Anderegg draw attention to the danger of substantial and irreparable adverse long-term effects of the existing agricultural policy in the *sphere of regional planning*. Priebe stresses the aggravation of existing imbalances and the danger to the countryside as a place in which people live and relax and to the economic and social potencies of many rural regions. Popp/Anderegg deal in the main with the structural policy model of the farm unit providing fulltime employment which has conduced to the depopulation of large areas in the Lower Alpes.

(f) Special *environmental and energy aspects* arise from the tendency to make increasingly intensive use of suitable agricultural land and apply increasingly intensive methods of animal husbandry in populated districts which are in any case subject to heavy ecological strains while at the same time neglecting lands in the Lower Alpes which are not or only moderately well suited to intensive agricultural production and suffer a decline of their farm animal stocks (Priebe, Binswanger/Müller, Popp/Anderegg).

Priebe expresses misgivings about the supply of energy for agriculture. He sees the supply of food in times of crisis endangered by the great dependence on imports in the energy sector, the more so as factor subsidies for energy in the agricultural sphere set the wrong signals for the consumption of energy of external origin.

Catalogue of Objectives

The improvement of the agricultural income and living conditions plays in the view of all authors a dominant role. The importance of narrowing the income differentials inside agriculture and the objective of a broad spread of ownership is pointed out (Priebe).

⁴ Cf. J. F. van Riemsdijk: Direkter Einkommenstransfer als zentrales Instrument der Agrarpolitik (Direct income transfer as a central instrument of agricultural policy), p. 73 ff.

⁵ E.g., A. Durand: Die Trennung von Preispolitik und Ausgleichszahlungen im Ackerbau (The separation of price policy and compensatory payments in agriculture), p. 37 ff.

⁶ Cf. H. Popp and R. Anderegg: Agrarpolitik für die Berggebiete: Beispiel Schweiz (Agricultural policy for the mountain regions: Switzerland an example), p. 29 ff.

⁷ Cf. L. P. F. Smith: Agrarpolitik im Industriestaat: Preis- und Strukturpolitik (Agricultural policy in the industrialized state: Price and structural policy), p. 91 ff.

⁸ Cf. H. C. Binswanger/K. Müller: Vorschlag für die Einführung von Flächenbeiträgen (Proposal for the introduction of area-related grants), p. 17 ff.

⁹ Cf. J. S. Marsh: Die europäische Agrarpolitik im internationalen Zusammenhang (The European agricultural policy in its international context), p. 49 ff.

Riemsdijk demands structural adjustments "in a socially tolerable compass" and thus without excessive adjustment pressure.

In the sphere of supply most authors call for efficient food production, high quality (Priebe, Binswanger/Müller), an adequate level of prices (in the case of Switzerland the lowering of prices to the EC level; Binswanger/Müller). The need for precautionary measures to safeguard supplies for times of crisis is not denied by any of the authors.

Equally undisputed is the objective in the interest of stability of keeping production in line with the market and demand. Smith comes out in favour of small production surpluses so as to safeguard supplies. Marsh demands in addition an expansion of trade in and outside the Community.

In regard to the regional policy objectives Binswanger/Müller lay emphasis on the desirability of minimum population density and of countryside amenities and protection of the environment. Priebe stresses the importance of the preservation of rural amenities for attractive living conditions in rural areas. Popp/Anderegg mention the Alpes as an important region for relaxation and Marsh and Riemsdijk the need for harmonization of agricultural, social and regional objectives. Smith on the other hand does not want to see the conservation measures for the countryside to be extended to all problem areas.

Special environmental objectives are mentioned by Priebe (restoration of the ecological balance, abatement of injury to the environment caused by intensive agriculture), Binswanger/Müller (protection of the natural environment by attention to countryside amenities) and Popp/Anderegg (preservation of the cultivated land as kind of a resource policy). In the sphere of energy Priebe demands maximum utilization of natural energy sources and energy-efficient agricultural production methods.

Alternative Proposals

The alternative proposals enunciated by the individual authors have different implications. The dominant theme is the demand for a systematic separation of price and income policies. Other demands relate to the instruments of agricultural policy at other levels.

Input-oriented measures can have a considerable effect on the structure of agriculture in the long term but in the short view they have proved an inefficient means for avoiding production surpluses. As regards the

production factor labour, Smith calls for an improvement of agricultural training and lower per-capita training costs for young people (improvement of alternative job opportunities) as well as extended career counseling services as a further mobility-improving measure. As for the factor capital (investment promotion, agricultural credit policy), Smith advocates investment assistance for a limited period on a once-for-all basis. Priebe recommends full equality of treatment in matters of structural assistance for all social-economic types of operation (including farming in combination with other activities). Popp/Anderegg plead for massive structural assistance for agriculture, especially mountain farming, (non-repayable grants, interest-free repayable investment loans, housebuilding grants). Marsh warns against too much assistance for highly-mechanized capital-intensive operations to the detriment of the traditional units so as to avoid excessive exposure of agriculture to risks from too great capital-intensity.

As far as the factor land is concerned, Priebe urges encouragement of extensive methods of cultivation in structurally weak areas. Binswanger/Müller and Popp/Anderegg advocate area-related compensatory payments for this purpose, such as have been provided in Switzerland since January 1, 1980 in mountain and hill districts and in Austria's Vorarlberg and the Principality of Liechtenstein with very good results for quite some time. It is worth noting that no author suggests that areas should be taken out of cultivation as in the USA for instance. Smith favours more extensive methods of land utilization and the creation of national parks as possibilities of alternative use of cultivated lands. Marsh expresses a view on know-how: he looks on assistance in the application of the most modern agrotechnological findings as a means of raising overall productivity.

Output-oriented intervention designed to limit sales (e. g. by means of overall sales quotas, fixed limits to the quantities to be offered by individual producers or negotiable certificates) can be a highly efficient instrument for getting a hold on agricultural markets and incomes provided that the market channels can be controlled. It should however be pointed out that the majority of the authors do not call for measures to restrict supplies but want the market-oriented regulation mechanisms to be improved. Smith is the only exception: he is in favour of setting up agricultural supply monopolies.

Demand-oriented intervention (e. g., food vouchers for the poorer sections of the population, school meals,

old people's canteens, food parcels) has been found to be very expensive, especially in the USA, and inefficient as a tool for stabilizing the agricultural markets. Under distribution aspects on the other hand they deserve a very high rating. In view of the regressive distributive effect of an agricultural income policy based on a system of high prices all authors (except Smith) demand less steep rises of the price level of agricultural products, mostly in combination with direct income payments.

Market-linked supply and demand regulation is a highly efficient, administratively inexpensive low-cost regulating mechanism. In the practice of agricultural policy this is not always realised. Priebe, Binswanger/Müller, Popp/Anderegg and Riemsdijk therefore all express their support for prices in line with (and clearing) the market, in conjunction with direct income payments. Marsh recommends fixing of prices over long periods and adequate storage mechanisms so as to avoid undesirably wide price fluctuations. The avowal of the authors' belief in "as much market as possible", in conjunction with direct income payments, is the most poignant demand in the entire publication.

The individual authors present different proposals for the provision of direct income subsidies to offset lower real or even nominal price levels.

Priebe favours grants graded according to size of cultivated area, contingent upon a certain minimum of extensive cultivation and possibly differentiating

according to size of farm unit (degressive differentiation), type of production or natural production conditions, to serve as a complement to prices geared to market conditions.

Durand recommends per-hectare grants for arable land at uniform rates and without regional differentiation. This would entail a (desirable) relative preference for disadvantaged districts. The consumer prices would in consequence come down slightly, and the subsidies could be financed in part through a tax on consumption.

Riemsdijk wants the real level of agricultural prices to be brought down concurrently with the introduction of a flexible system of direct income transfers. These direct income payments were only intended for farmers now engaged in farming. They were not to be transferable and should be provided only for a limited period depending on the farmer's age. They would be varied degressively according to unit size and take the "normal" physical yields (regional averages) and the actual price cuts into account. Financial incentives in the form of transfer payments might be made in addition for an adjustment period of three years to make it easier for farmers to give up their farms.

Marsh also recommends direct income payments to compensate for price reductions. These should be proportional to production, scaled degressively according to unit size and be paid until retirement from work owing to advancing age.

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V E R L A G W E L T A R C H I V G M B H - H A M B U R G

Area-related Grants

Binswanger/Müller's "Postulate of a new agricultural policy" on the other hand provides for the introduction of cultivation grants as a form of direct income payments irrespective of type of product. They consider the area under agricultural cultivation the most suitable criterion for the calculation of the grants. The minimum of cultivation required would be proper use as pasture. The grants would be the same for all crops or uses; the necessary balance between intensive and extensive cultivation would be achieved primarily through the price policy. A degressive scale would be applied unless a basic grant per farm unit was also offered.

How this proposal would work out is shown in the table below by the example of milk but it would apply to all products. It is assumed that the price of milk is frozen, partly to control production. It may be expected that the milk surpluses will be thus gradually reduced, the more so as agricultural production costs are rising strongly and persistently, the producer price of milk compared with other products is changing in favour of the latter and nominally unchanged milk prices would conduce to increased consumption, especially of processed milk products. As a result it would be possible to convert the disbursements of the European Agricultural Guidance and Guarantee Fund (Guarantee Section) gradually into per-hectare grants.

With a grant of DM 300 per hectare for the first five hectares for instance (and degressive rates for larger areas) payments as shown in the table would have to be made.

The per-hectare grant in this example is a uniform DM 300, which with one cow per 0.6 hectare of land corresponds to incremental earnings of 7.5 % or DM 0.045 per kilogram of milk. The nominal increase in earnings is the same under extensive farming methods

but with one cow per 1.2 hectares the increase per kilogram of milk rises to DM 0.09 – an extra DM 0.045 (without need to resort to more intensive methods). With intensive methods of dairy farming (e. g., one cow per 0.4 hectare) the incremental earnings would be the same per hectare but only DM 0.03 per kilogram of milk – DM 0.015 less than on the basis of one cow per 0.6 hectare.

The differentiation of area grants could perhaps follow this scale:

First 5 hectares	DM 300 per hectare.
Above 5 up to 20 hectares	DM 250 per hectare.
Above 20 up to 40 hectares	DM 150 per hectare.
Above 40 up to 100 hectares	DM 100 per hectare.

Implementation of this proposal could lead to a gradual separation of price and income policy and allow the price to be given an increasingly important market regulating function. It would make it possible to replace the export refunds for milk and other products, which are inefficient from the point of view of income policy, by direct income payments which are effective in this respect. More extensive efforts towards conservation of rural amenities could be made, and the ecologically objectionable intensification of agricultural production methods could be greatly attenuated. Furthermore, a real impetus would be given, in structurally disadvantaged areas, to part-time farming unconnected with milk production and using extensive methods of operation.

A reduction of food prices in real terms could be expected to bring relative relief to consumers in the lower income brackets, which would be highly desirable on grounds of equity. Finally, implementation of this proposal could make a significant contribution to the stabilization of the agricultural world markets, for which there seems to be an urgent need.

Producers' Earnings at Different Productivity Levels per Hectare

(Uniform Production of 4,000 Kilogram of Milk per Cow and Year)

1 Required Grazing Area	2 Milk Output	3 Cultivation Grant	4 Earnings from Milk (DM 0.60 per kg)	5 = 3 + 4 Total Earnings	6 = 5 : 2 Total Earnings	7 Difference from Target Price of DM 0.645/kg	8 = 7 x 2 Difference from Earnings at Milk Price of DM 0.645/kg
ha/cow	kg/hectare	DM/hectare	DM/hectare	DM/hectare	DM/kg	DM/kg	DM/hectare
1.20	3,330	300	2,000	2,300	0.69	+ 0.045	+ 150
0.90	4,440	300	2,665	2,965	0.668	+ 0.023	+ 102
0.80	5,000	300	3,000	3,300	0.66	+ 0.015	+ 75
0.70	5,710	300	3,425	3,725	0.652	+ 0.007	+ 40
0.60	6,670	300	4,000	4,300	0.645	–	–
0.50	8,000	300	4,800	5,100	0.638	– 0.08	– 64
0.40	10,000	300	6,000	6,300	0.63	– 0.015	– 150