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EC Agricultural and Regional Policy Consistent Interventions or Cumulative Inconsistencies?

Additional state intervention harbours the danger of increasing inconsistencies; this is especially true if there is no clear demarcation of duties between authorities at different levels, as is the case in many spheres within the EC. The plans to double the size of the EC Structural Fund by 1992 give reason to subject the EC's agricultural and regional policy interventions to scrutiny as regards their consistency and compatibility with overall economic goals.

The demolition of national market barriers within the EC could lead – because of improved geographical specialization, the exploitation of economies of scale and higher productivity growth – to an increase in the Community's national product of 4.3-6.4% (with 1988 as the reference year) and to a substantial reduction in unemployment.¹ Whether, and to what extent, this potential can actually be realized by allowing market forces to develop more freely depends, among other things, on whether the pressure for adjustment exerted by this process on many companies, sectors and regions leads to an increased desire for protection and hence also to more energetic market intervention by the state in many cases. This would simply mean replacing old regulatory mechanisms with new ones. This fear is justifiable, since the efforts on the part of individual member countries or interest groups to have resources redistributed via the new level of central administration strike a chord with the EC Commission's own wish to expand its areas of responsibility. Such tendencies of a sectoral kind have been in evidence in the agricultural sphere since the EC's foundation; regional policy intervention by the Community, on the other hand, is a more recent phenomenon but one which is rapidly growing in significance.

Additional state intervention harbours the danger of increasing inconsistencies; this is especially true if there is no clear demarcation of duties between authorities at different levels, as is the case in many spheres within the EC. In particular, the plans to double the size of the EC Structural Fund by 1992 and the fact that the Integrated Mediterranean Programmes (IMPs) have already been

put into operation give good reason to subject the EC's regional policy interventions and the interventions in the agricultural sector, which have been continually expanded since the Community's foundation, to scrutiny with a view to their consistency and compatibility with overall economic goals. Before discussing selected instruments in these two policy areas – the IMPs alone will be discussed in the case of regional policy – a short outline will be given of the origins of EC regional policy and of the most commonly used regional economic indicators, the specific development of which is used in some cases as a justification for regional intervention.

Development of EC Regional Policy

The beginnings of a European regional policy are already set out in the Preamble to the Treaty of Rome, in which the signatory nations express their endeavour "... to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and by mitigating the backwardness of the less favoured". Whilst European activities were initially confined to monitoring national aid programmes – regional aid facilities, in contrast to sectoral ones, were not prohibited on principle² – responsibilities for regional policy were established on the EC level in 1975 with the inauguration of the European Regional Development Fund (ERDF). It appears significant here that an important reason for the decision to initiate an EC

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¹ P. Cecchini: Europa 92. Der Vorteil des Binnenmarktes, Baden-Baden 1988, pp. 130 f.

² C. Krieger-Boden: Zur Regionalpolitik der Europäischen Gemeinschaft, in: Die Weltwirtschaft, 1987, No. 1, p. 83.

regional policy arose out of other interventions at the European level, namely the Common Agricultural Policy and the transfers of funds it generated. Although to begin with funding was only granted for activities in support of individual regional policy measures adopted by member countries, it was not long before general regional development programmes on a national level were the precondition for receiving support.³

With the help of other important reforms such as the introduction of a "quota-free" section for the ERDF in 1979 and the thorough renewal of support procedures within the quota system in 1985 (moving away from project support to Community programmes and national programmes serving the Community), the Regional Fund has "... developed from being a form of supplementary support within the framework of national regional policy into an institution with which the Commission itself engages in an interventionist regional policy".⁴ These developments were guaranteed and backed up by resolutions adopted as part of the "Single European Act" which were given legal form as Articles 130a ff. of the EC Treaty. These state that "... the Community shall continue its policy of upholding its economic and social cohesion and shall, in particular, set itself the goal of reducing the gap between the various regions and the backwardness of the least favoured areas" (our translation). The various structural funds comprise the most important instrument for setting about this task. They are, in addition to the ERDF, the European Social Fund (ESF) and the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF), and new coordinating regulations have been issued for these (EC Decree No. 2052/88). The financial resources of the three funds are to rise to ECU 13.5 billion by 1992, which would put them at almost double their 1988 levels. Their share of the overall Community budget would go up from approximately 18% to 28% as a result. These figures do not include part of the funds set aside for the Integrated Mediterranean Programmes, which have been set at ECU 900 million for 1992, the legal basis being Decree No. 2088/85.

Indicators for Regional Economic Development

Each stage in the expansion of regional policy decision-making authority on a supra-national level has been closely associated with actual or imminent additions to the EC's membership, with the increased differences in regional development resulting from such additions, and with attempts to compensate for real or presumed regional effects of EC agricultural policy. Before taking a closer look at regional aspects of

agricultural policy, we shall discuss briefly the development of a number of criteria employed in ascertaining the need for regional policy measures. At the forefront among these are per capita income and the rate of unemployment. This distinction is drawn between relative developments in regional indicators over time (divergence/convergence) and differences in levels of regional development at a given point in time (disparity).

A look at the movements occurring during the period 1970-1985 shows that the scatter of both GDP per capita and GDP per gainfully employed person among the regions has remained virtually unchanged. After a short period of convergence up to 1975, regional rates of unemployment showed a markedly increasing divergence as overall unemployment levels rose.⁵ Major increases in unemployment are by no means confined to regions with low per capita incomes. More definite results emerge from the description of regional disparities at a given point in time. The first observation, which comes as no surprise, is that there was a great increase in the disparities once the EC had grown to include 12 countries, and this regardless of which indicator was used. If the synthetic index calculated by the EC Commission⁶ is used, the real problem areas turn out to be all regions in Greece, Spain, Portugal, southern Italy, the Irish Republic and Northern Ireland. A second group of regions with relatively severe problems includes six areas in Great Britain and two in Belgium. The Community's regional policy efforts are concentrated above all on the first of these groups, with the Mediterranean regions in the original member countries forming a particular focus of attention by virtue of the Integrated Mediterranean Programmes. In addition to the socio-economic indicators reflected in the index, a number of others can also be referred to in deciding where to allot regional policy funds, such as the infrastructure within a region or the "type of region" concerned (e.g. agricultural).

A Need for Regional Policy Action?

If, as the substantial increase in expenditure implies, the above diagnosis with all its ambiguities is taken to indicate a need for action in regional policy, three groups

³ EC Commission: Die Regionen der erweiterten Gemeinschaft, Dritter Periodischer Bericht über die sozio-ökonomische Lage und Entwicklung der Regionen der Gemeinschaft, Zusammenfassung und Schlußfolgerungen, Brussels 1987, p. 81.

⁴ C. Krieger-Boden, op. cit., p. 91 (our translation).

⁵ EC Commission, op. cit., pp. 55 f.

⁶ This is weighted as follows: 25 % GDP per capita, 25 % GDP per gainfully employed person, 40 % unemployment and under-employment, 10 % development of the supply of labour until 1990; cf. EC Commission, op. cit., p. 21.

of problems command attention from an overall economic point of view:

- ☐ How can the policy aim of reducing disparities be made sufficiently precise? Is a certain amount of inequality under certain circumstances not only acceptable but actually necessary as a spur to structural change and growth?
- ☐ Should disparities and divergences be reduced by fresh intervention or by breaking down structural rigidities and promoting competition among the regions? It is in the nature of the problem that this question cannot be answered without first conducting a causal analysis. There are clear indications in the Commission's report, for example, of insufficient regional pay differentials (rigidities) and of conflicts between the aims of growth and redistribution.
- ☐ Are the various economic policy interventions undertaken by the EC consistent with one another?

The first two – very fundamental – questions will only be touched upon below,⁷ while the main attention will be devoted to the third, with special reference to the EC's regional and agricultural policies.

Regional Aspects of Agricultural Policy

The central aspect of agricultural policy expenditure by the EC is its policy on markets and prices which is formed in such a way as to provide a high degree of protection for agricultural production while imposing additional burdens on consumers. This gives rise to serious allocative distortions and hence high macro-economic costs including the loss of jobs.⁸ Apart from these inter-sectoral distortions, there is also a sub-optimal intra-sectoral specialization due primarily to differing effective rates of protection for individual products and to the system of monetary compensatory amounts (MCAs). As a result of the above-average protection they receive, so-called "northern commodities" are produced "too much" and consumed "too little". By now, though, the gap would appear to have been considerably narrowed by some southern products such as olives. The system of MCAs means that strong-currency countries (especially West

Germany) have an unduly high level of prices and of protection whereas weak-currency countries have below-average price levels for most types of produce (the exception being fruit and vegetables). At present, this applies especially to Greece (approximately –30%), as it has for a long period to the United Kingdom (approximately –15%), and did particularly in earlier years to Italy (approximately –5%).⁹

Three analytical approaches, which differ both in terms of regional disaggregation and of their level of analytical sophistication, will be briefly discussed below with a view to their suitability for quantifying the geographical effects of market and price policies. These are

- ☐ regional welfare effects created by the high level of agricultural protection caused by market and price policies,
- ☐ distribution effects among member countries (in net-recipient or net-contributor positions), and
- ☐ the regional distribution of expenditure from the Guarantee Section of the EAGGF.

Regional Welfare Effects

It is extremely difficult to achieve an adequate analysis of the regional welfare effects of market and price policies since this not only entails establishing the regional net expenditure or net income attributable to the policies (expenditure incidence), but also inter-regional trade flows for which, especially in the EC, the necessary statistics are largely not available. A model analysis was carried out for West Germany, which examined 163 regional labour markets, using estimates or assumptions to fill gaps in the data. The study was confined to milk and cereals, and came to the conclusion that agricultural regions do obtain welfare gains.¹⁰ These gains are all the greater the larger the proportion of regional GDP accounted for by the agricultural sector and the higher the level of agricultural protection specific to that region, this in turn being influenced by the structure of protection and production mentioned above, as well as by the MCA system. If agricultural regions are compared with one another those regions where labour productivity is higher naturally show relatively larger gains in per capita income for given changes in product prices. On the face of it then, the general findings suggest a degree of harmony between agricultural and regional policy to

⁷ For a closer analysis, cf. R. Soltwedel: Wettbewerb zwischen Regionen statt zentral koordinierter Regionalpolitik, in: Die Weltwirtschaft, 1987, No. 1, pp. 129-145; A. Bothe: Regionalpolitik und Marktwirtschaft, in: Die Weltwirtschaft, 1987, No. 1, pp. 116-128.

⁸ Cf., among others, Bureau of Agricultural Economics: Agricultural Policies in the European Community. Their Origins, Nature and Effects on Production and Trade, Canberra 1985; H. Dicke, J. B. Donges, E. Gerken, G. Kirkpatrick: The Economic Effects of Agricultural Policy in West Germany, in: Weltwirtschaftliches Archiv, Vol. 124, 1988, pp. 3011-3321.

⁹ Cf. Agrarbericht der Bundesregierung, Bonn 1988, p. 51.

¹⁰ K. Wehrt: Regionale Wirtschaftspolitik und europäische Agrarmarktorrdnungen, Frankfurt am Main 1986, pp. 238 f.

the extent that agricultural regions generally occupy the lower end of a scale based on per capita income, one of the important indicators discussed. Yet the crucial point is that all regions ultimately suffer high welfare losses as a result of the distortions in inter-sectoral allocation, and it is the non-agricultural regions which have to bear the cost. Hence from the point of view of the economy as a whole a distortion of the inter-sectoral structure of production turns out, as would be expected from the theory, to be one of the most inefficient instruments conceivable for redistributing resources between regions.

Net-Contributor Countries

However, the EC's agricultural and regional policy decisions are primarily governed not by these regional welfare effects which are empirically so difficult to ascertain, but by the net-contributor positions in which certain countries find themselves as a result of the inward and outward flows of funds dictated by the market regulatory mechanism taken together with the country's contribution from VAT receipts to the Community budget.¹¹ Since the entry of Britain, Ireland and Denmark, the chief countries to occupy a high deficit position have been West Germany and Britain. The reason for this is that the net flow of payments is decisively influenced by the extent to which the country concerned is self-sufficient in key market-regulated products, which has little connection with the country's relative wealth. These misallocations not only led to the British asserting their claim to a rebate on their payments because of the country's relatively low per capita income, but also to the establishment of the regional fund intended to help redistribute resources from the richer to the poorer countries.

¹¹ Cf. C. Thoroe: Die Agrarpolitik der EG im Konflikt mit Finanzausgleichszielen, in: *Agrarwirtschaft*, Vol. 29 (1980), No. 3., pp. 78-87; V. Petersen: Gemeinsame Agrarpolitik und der Haushalt der EG, in: *Agrarwirtschaft*, Vol. 32 (1983), pp. 237-250; G. Ott: Internationale Verteilungswirkungen im Finanzausgleich der europäischen Gemeinschaften, Frankfurt am Main 1987.

Apart from the above, a country's "net position" gives relatively little clue as to the true economic advantages or disadvantages of its membership in the EC; this still applies even if the financial transfers actually made are supplemented in the calculation of the net position¹² by "imaginary" trade transfers, which are calculated on the assumption that a country would pursue the same agricultural policy as the EC if it had responsibility for financing that policy itself. The chief reason for this judgement is the belief that the development and growth stimuli created by market expansion, which determine a country's future income position, are very multi-faceted, and that these could actually be diminished by net transfer receipts, at least if such implicit payments strongly distort inter-sectoral allocation as is the case with EC agricultural policy. A consolidated opinion on this could only be derived from a comprehensive macro-economic analysis.

Regional Distribution of EAGGF Payments

The least sophisticated of the various judgement criteria entails examining the regional apportionment of (guarantee) expenditure by the EAGGF, and the Community devotes a relatively large amount of effort to this.¹³ The conclusion it draws is that the distribution effects tend to be rather diffuse and there is therefore anything other than a clear correlation between relative *backwardness* in development and the size of payments received. To this must be added the fact that expenditure designed to regulate the market only reaches the producers themselves (or in this case, the regions) to a limited extent which varies from product to product. On the other hand, even if a positive correlation could be convincingly shown to exist one would still have to agree with the conclusion reached by the Commission in the

¹² Cf. C. Thoroe, op. cit.; and H. Ahrens, W. von Urff: Neuere Tendenzen der EG-internen Einkommenstransfers über den innergemeinschaftlichen Agrarhandel, in: *Agrarwirtschaft*, Vol. 33 (1984), pp. 1-8.

¹³ EC Commission, op. cit., pp. 73 f.

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negative case, which reads: "It would be in the interests of a more even regional distribution of support measures and of a real convergence between the regions if more weight were attached to promoting the creation of lasting employment in the non-agricultural sector, thus facilitating structural adjustments which are unavoidable and making possible a rise in the agricultural productivity of labour in less developed regions without 'surplus production'." (Our translation). Another passage (p. 77) adds: "Hence the unequal and regionally diffuse effects of support do not aid convergence and cohesion." It should be noted that the use of "surpluses" as a criterion – which also occurred when the new guidelines were drawn up for the structural fund – is inadmissible from an economic point of view since it is oriented to notions of autarchy instead of to competition with third countries. Moreover, it seems it can hardly be denied that dispensing with support for jobs in agriculture is in itself a contribution to creating more lasting employment in other sectors.

Agricultural Structural Policy

The significance of the EC's structural policy for agriculture – measured in terms of the funds available to the Guidance Section of the EAGGF which represented 2.5-3 % of total EC expenditure in the period 1980-1988 – has been relatively limited up to the present day. The large increase in available funds mentioned at the beginning of the article will change this, especially because there will also be pronounced increases in national expenditure on structural policy in the agricultural sphere via the use of matching funds.

Traditionally, a relatively significant proportion of "guidance" expenditure has gone towards "improving marketing structures" and "improving agricultural structures", which accounted for 10 % and 35 % of spending respectively in 1985 and were surpassed only by regional schemes which took up 40-50 % and have shown a rising trend in the last few years.¹⁴ Even if one were to assume that all the programmes were oriented to regional policy aims according to EC standards – and in view of the conflicts with national objectives or those of agricultural policy itself this undoubtedly is not the case – there is no escaping the fact that a very large part

of such sector-specific aid generates allocation effects running in the same direction as those of price protection, which is high enough as it is. If support is given to projects such as irrigation or drainage schemes or to marketing facilities, all of which have long depreciation periods, this protection in the form of "reducing the cost burden" actually has the additional disadvantage that it makes it all the more difficult to make short-term changes in the allocation structure by, say, reducing price protection. Explicit mention is made of the fact that such measures are intended to "compensate" those regions which, because of low productivity, have so far obtained less benefit than others from price policies.¹⁵ Thus in principle the evaluation of such measures leads to the same negative result – as regards both medium and long-term regional policy aims (convergence) and the goal of efficiency – as do price policy and the effects of the Guarantee Fund:

- ☐ Large discrepancies are allowed to occur between primary resource allocation effects and the distributive aims of the EC regional policy (for example, during the period 1984-1986 ECU 1.5 billion, or 17 % of total funds, were spent in Federal Germany, whose "poor" regions are not among the poorest at the EC level).
- ☐ The fact that this largely sector-specific aid reinforces distortions in inter-sectoral allocation leads to losses of efficiency in the economy as a whole.

Summit Resolutions

The decisions taken in February 1988 are intended to mark the beginning of a new approach in EC agricultural policy, with more restraint to be exercised in future by price policy whilst other supporting measures are to be taken including

- ☐ taking land out of use,
- ☐ early retirement,
- ☐ direct income support and the already existing
- ☐ compensatory payments to less favoured areas.

All of these are intended to relieve adjustment problems for the farmers affected, and especially those in disadvantaged regions.¹⁶ It is impossible to go into detail here, but the last-named measure deserves a brief discussion. The EC Commission stresses the positive regional policy effects in its 3rd periodic report (1987) by pointing out that the compensatory payments primarily benefit areas with natural disadvantages or where the proportion of the labour force working in agriculture is well above average. This may well be so,

¹⁴ European Communities: EC Expenditure on the Common Agricultural Policy, in: *Agra-Europe*, No. 49/87 (Documentation), p. 10.

¹⁵ EC Commission: *Die Lage der Landwirtschaft, Bericht 1987*, Brussels 1988, p. 84.

¹⁶ For details of the measures and an assessment from an overall economic point of view, cf. J.-V. Schrader: *EG-Gipfelbeschlüsse zur Agrar- und Haushaltspolitik: Schritte in die falsche Richtung*, Kieler Diskussionsbeiträge No. 143, Kiel 1988.

but this compensatory scheme is no more than an across-the-board cost reduction for farmers in regions with natural disadvantages, so this yet again helps reinforce the inter- and intra-sectoral allocative distortions which in any case already exist.

Furthermore, structural change towards larger units within the agricultural sector itself is inhibited because preference is given to small and medium-sized farms under the scheme. The different levels of EC participation in total costs (50 % in Ireland and the southern countries, 25 % in the remainder) is only superficially in accordance with regional policy aims, for the leeway granted to the member countries in setting premium rates and defining what should be treated as a less favoured area means in practice that there are large differences in the payments made per hectare or per animal.¹⁷ This once again gives rise to intra-sectoral allocative distortions running directly counter to the unification of markets by 1992 and which are also hardly in line with policy goals on the regional distribution of income. The bids to out-subsidize other countries or regions thus given legal status would not be such a problem in themselves if the costs were borne exclusively by the countries concerned and not partly off-loaded on to the rest of the Community.¹⁸ The declared aim, which must fundamentally be welcomed, of separating income (distribution) goals from allocative ones by allowing income goals to be pursued by national payments is not achieved at all here, for the payments are anything but neutral from an allocative point of view.¹⁹

The Integrated Mediterranean Programmes

The Integrated Mediterranean Programmes were decided upon in 1985 in order to relieve the southern regions of the 10-member EC from the pressures of adjustment resulting from increased competition once Spain and Portugal joined the Community. The aim was to avoid any further increase in the gap between southern and northern regions in the "old" EC, for which one of the reasons was felt to be the low level of protection given to southern products by Community agricultural policy.²⁰ Here again the inconsistencies of

agricultural policy²¹ are used as a justification for further regional policy intervention. Another astonishing aspect is that regions of the original EC are to be protected from competition from regions of Spain and Portugal which, if anything, are poorer still. The programmes are intended to run for a maximum of seven years, to reach all sectors of the economy, to be flexibly adjusted to the conditions prevailing in the affected areas and to be consistent with other Community policies, particularly agricultural policy.

The funds provided by the EC amount to ECU 6.6 billion over the seven-year period. ECU 4.1 billion of that total are to be catered for by the Community budget, and the remaining ECU 2.5 billion to be supplied by the European Investment Bank. The portion to come from the budget is made up of ECU 2.5 billion routed via the structural fund, supplemented by ECU 1.6 billion which are budgeted as a special item under Article 551. Taking the funds as a whole, 50 % are reserved for Greece and 25 % each for Italy and France. The EC participation in the total cost of the programmes is not permitted to exceed 70 %. ECU 2.2 billion of the funds set aside in the Community budget had been granted by the end of 1987; overall expenditure involved in the programmes approved up to that time was approximately ECU 4.5 billion, giving an average EC participation rate of around 50 %. The average contribution of private resources was 28 % in France and 10 % in Greece. In 1987, assistance under the IMPs took up a share of overall EC assistance from the structural fund in these regions of 56 % in France and 37 % in Greece.

Although it is not possible at present, and is in any case rather difficult, to develop a consistent impression of the sectoral uses of the IMPs, it is nevertheless possible to deduce a number of trends from the plans so far adopted. In France the proportion of agricultural projects is around 50 % throughout, whereas on Crete it is about 25 %, and elsewhere in Greece 15-20 %. The French agricultural projects are generally intended to strengthen competitiveness, especially in fruit and vegetable growing, and e.g. to help vineyards and orchards convert to "more profitable" products such as maize, sorghum, oil seeds and albuminous crops. In Greece, especially on Crete, the main emphasis is on modernizing olive farming and on constructing irrigation systems.

¹⁷ In 1985, for example, total payments in France were ECU 136 million and in Federal Germany ECU 105 million, even though France has an area under cultivation almost three times the size of that in the FRG (31 million hectares against 12 million).

¹⁸ On the problems arising with matched funding involving different federal levels, cf. K.-D. Henke: Neuordnung des Finanzausgleichs im föderativen System der Bundesrepublik Deutschland, in: H. Giersch (ed.): Agenda für die Wirtschaftspolitik, Stuttgart 1983, pp. 128-152; K. Lamers: Die Bund-Länder-Regionalförderung – Ziele, Ansatzpunkte, ökonomische Problematik, in: Die Weltwirtschaft, 1987, No. 1, pp. 61-81.

¹⁹ On this, cf. T. Padoa-Schioppa: Effizienz, Stabilität und Verteilungsgerechtigkeit, Wiesbaden 1988, p. 9.

²⁰ EC Commission: Integrated Mediterranean Programmes, Progress Report 1986-1987, Brussels 1988.

²¹ It is in fact open to question whether the lower level of protection for southern agricultural produce really damages the economic development of these regions, for this actually eases distortions in inter-sectoral allocation and hence promotes structural change.

False Sectoral Specialization

Bearing in mind the interconnections discussed above, all of these measures have to be classed as subsidies to boost production which are being implemented as a substitute for price policy measures. Against the background of protection rates which are in any case high, especially for the products concerned here, and of the high overall economic costs they entail, there can be no allocative justification for such schemes. As far as regional policy is concerned, even if it is predominantly the poorer regions which gain from the programmes, the false sectoral specialization will, if anything, impair the long-term development of these regions. Moreover, there are distortions to competition with other regions not receiving such assistance and hence also to allocation, causing losses in overall economic efficiency.

It is hardly relevant to justify measures by saying that only products which are not in surplus will be given support, for the deciding factor according to economic criteria should not be the level of self-sufficiency but that of competitiveness with regard to third countries. If vineyards or orchards in the south of France, which in some cases were probably subsidized when originally planted, are now converted to arable cultivation the result may be a further increase in macro-economic costs. Nor is there an economic justification for the attempts to halt the depopulation of mountainous regions (passive reorganization); on no account should such trends be taken as grounds for subsidizing production which would otherwise be unprofitable. The same considerations apply to a frequently stated aim in recent years, namely the "preservation of the landscape". The appropriate route to take in such cases would be for those people who benefit from a particular form of landscape to contribute to the cost of its preservation, and not for budget resources to be redistributed via a central bureaucracy.²²

European agricultural policy leads to serious inter-sectoral allocative distortions which have high economic costs as a consequence. The geographical distributive effects flowing from these policies only make, at best, a coincidental contribution to the reduction of regional income differentials; market and price policy would at any event be one of the most inefficient instruments conceivable for pursuing regional

policy income distribution goals. On the other hand, the inter-country or regional distribution effects which do occur have also been used to justify additional intervention in the shape of agricultural structural policy and triggered off the assignment of regional policy powers to the Community level. Structural policy measures in the agricultural sector largely take the form of cost reimbursements, which have a similar effect to that of artificially high prices on the inter-sectoral allocation of resources. They too are therefore an unsuitable instrument for regional income redistribution.

The Integrated Mediterranean Programmes, a major EC regional policy instrument, channel large flows of funds into the Mediterranean area of the Community yet exclude some of the poorest regions which are located in the new member countries of Spain and Portugal. The fact that these programmes concentrate very strongly on agricultural projects can be presumed to be a result of the generally high level of agricultural protection in the EC which then leads responsible decision-makers at a national level to determine the allocation of financial resources according to erroneous data from the overall economic point of view. It therefore appears that the misallocations resulting from European agricultural policy are not being corrected by the IMPs, as was the alleged intention, but reinforced.

If measures to redistribute income among the regions really are regarded as indispensable on political or economic grounds, the best solution in principle would be budgetary transfer payments with a sectorally neutral effect, which could be used according to the autonomous decisions of national or regional administrations. In view of the distortions in underlying data in favour of the agricultural sector, however, it would still be necessary for the allocation of funds to be centrally monitored in order to avoid additional inter-sectoral distortions in resource allocation. There can be no doubt, though, that increasing bureaucratic intervention leads to a further strengthening of the central bureaucracy accompanied by a weakening of market forces, and thus to additional inefficiencies. Economically, the more commendable way of taking the bureaucracy out of regional policy intervention or even dispensing with the need for it would be a rapid reduction in agricultural protection. If the currently evident trend of steady increases in structural and regional policy intervention at the EC level continues, without there even being any noticeable reduction in such activity at a national level, there is a danger that the large increases in prosperity expected to result from European market integration will be cancelled out, at least in part, by still more bureaucratic regulation.

²² Cf. J.-V. Schrader: Abgrenzung, Bewertung, Internalisierung externer Effekte der Landwirtschaft, in: C. H. Hanf, W. Schepfer (eds.): *Neuere Forschungskonzepte und Methoden in den Wirtschafts- und Sozialwissenschaften des Landbaus*, Münster-Hiltrup 1989 (currently under preparation).