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Book Review

Book review – Koester, Ulrich (2010): Grundzüge der landwirtschaftlichen Marktlehre.

German Journal of Agricultural Economics (GJAE)

Provided in Cooperation with:

Gesellschaft für Wirtschafts- und Sozialwissenschaften des Landbaues e.V. (GEWISOLA)

Suggested Citation: Meester, Gerrit (2012) : Book review – Koester, Ulrich (2010): Grundzüge der landwirtschaftlichen Marktlehre., German Journal of Agricultural Economics (GJAE), ISSN 2191-4028, Deutscher Fachverlag, Frankfurt a. M., Vol. 61, Iss. 3, pp. 204-206, <https://doi.org/10.52825/gjae.v61i3.1881>

This Version is available at:

<https://hdl.handle.net/10419/304874>

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Book review

Koester, Ulrich (2010):

Grundzüge der landwirtschaftlichen Marktlehre.

Verlag Franz Vahlen München; 4. Auflage;

ISBN 978-3-8006-3764-5; 413 pages; € 34,80

The 4th edition of Ulrich Koester's textbook about the principles of agricultural markets and policies is very welcome, just at the beginning of the negotiations about the Common Agricultural Policy (CAP) beyond 2013. The book is subdivided in an introductory chapter 1, followed by 2 parts of respectively 3 and 5 chapters and forms a good mix between economic theory and its policy application, both in agriculture. The author pretends not only students but also practitioners and policy makers to read this book. This might be doubted especially for policy makers because of its theoretical complexity and its length. Moreover, the reader tastes frequently the struggle between especially German agricultural economists and policy makers about as Günther Schmitt once wrote why agricultural policy is as it is and not as it should be.

Part 1 of the book deals with theoretical principles: demand and supply and price formation on agricultural markets. General economic theory aspects are elaborated for agriculture products, frequently quantitatively illustrated with research results from the very rich mainly German sources of the last century, however, regrettably not always fully updated. Special attention is paid to welfare theoretical aspects of markets and prices formation, and of policy intervention into agricultural markets. Relatively new and probably in future increasingly important are the subchapters on transaction costs and price volatility.

Transaction costs do not only play a role in agricultural policies, and therefore in the current negotiations about the CAP. They are also of crucial importance for competitiveness, especially in international trade. New information and communication technologies have already large impact on agricultural trade and markets, and will cause much more changes in future. Private instead of public standards might increasingly contribute to the reduction of transaction costs, especially for sustainably produced goods.

Price volatility has become top priority even on policy levels as the G20 since the 2008 and 2010 price spikes. For Ulrich Koester rightly a reason to extend

chapter 4 with this item. A recent document of several international organizations, prepared for the Cannes G-20 in 2011 gives a good overview of the state of knowledge about the causes of price volatility and the possibilities for mitigation and adaptation. Politically popular statements as blaming speculators as being the cause or returning to public stocks or international commodity agreements policies are also in Koester's view not the right remedies for managing this problem.

Part 2 of the book deals with markets and prices policies, especially with the objectives, instruments, political versus economic preferences and future perspectives of the CAP. Koester mentions in his preface to this 4th edition that the CAP has undergone remarkable changes in the last 5 years that could hardly be expected a decade ago. One could discuss whether these fundamental changes started already with the Blair House Agreement and the Mac Sharry reform (correctly written with space between Mac and Sharry, as the former Commissioner himself once explained). But it is for sure that the Midterm Review 2003, complemented with the Health Check 2008, has been considered especially by the farm lobby more as a revolution than a review. It seems that Commissioner Fischler wanted to make already these big steps in Agenda 2000, but beforehand was blocked by a lobby leaded by the French President Chirac. In order to avoid such blockade again, the Midterm Review was prepared by only a few civil servants within the Commission (which also happened with the original proposals for Mac Sharry reform in 1990). Let us hope that the current CAP proposals will not lead to steps back for the period beyond 2013, because of large influence beforehand by vested interests.

Chapter 5 explains why agricultural markets are considered as a political problem. The usual arguments for market intervention are critically reviewed. Much attention is paid to the usually assumed income disparity between agriculture and other sectors. Very interesting also is Koester's clear explanation of the difference between food security and self sufficiency.

Especially agricultural policy makers should once again read this section of the book. Many experiences show that much more logistic problems in crisis situations, as well as the availability of energy and other non agricultural inputs are most critical in food shortage situations and not just self sufficiency on country or EU-level. Moreover, temporary changes of diets from animal products to vegetable products proved to be an important solution in crisis periods. Koester concludes more need for stocks of energy and other non-agricultural inputs than for high rates of self sufficiency in agriculture. Moreover livestock herds are also food stocks.

Chapter 6 deals with the objectives and institutional aspects of agricultural policy in Germany and the EU. It is remarkable that article 39 of the 2009 Lisbon Treaty contains still the same objectives as the same numbered article in the 1957 Treaty of Rome, whereas meanwhile all these objectives are largely realized and new societal needs and desires are raised. Regrettably especially this chapter escaped from full actualization of the text of earlier editions of the book. The text still talks amongst others about article 33 of the Nice Treaty, where it is now again article 39 of the Lisbon Treaty, about 25 instead of 27 Commissioners and about alphabetical turn of Presidencies of the Council instead of the current troikas of small and large member states. So not all last changes in Treaties are yet included here, this contrary to other chapters. Certainly mentioned here is the “ordinary legislative procedure” (co-decision procedure before the Lisbon Treaty) including now also for CAP co-decision making by Council and European Parliament. This new procedure might complicate the current decision making about CAP even much more than ever in the past.

The chapter mentions rightly the important role of the European Court of Justice in the development of the common market. But it contains an incorrect description of the formal position of member states in the preparation of commission proposals. Original proposals are not prepared in cooperation with the Permanent Representations in Brussels, as Koester suggest, but only within the commission’s civil service and cabinets, this due to the exclusive right of initiative of the commission. Of course lobby groups including member state governments and their permanent representatives try to influence this process already before the first writing of a concept-proposal within the commission. But the described negotiations start formally only after the commission has sent its proposals to council and parliament.

Most intriguing and elaborated is chapter 7 with its description and economic evaluation of CAP instruments. Traditional welfare economic concepts are explained and elaborated for price policies, quota systems, direct payments and border measures. It might have been clearer for the reader if the chapter would have started with a short factual description of EU’s price and income policy as now largely happens in chapter 9. This description is now implicitly included and therefore not always clear, especially for non-experts. Moreover, why not to skip in a next edition descriptions and evaluations of price policy instruments that are not used anymore, meanwhile further extending the texts for instance for current and future forms of direct payments. An increasing relevant question for instance is whether decoupled payments are as neutral as stated by the EU in their effects on production and, therefore, green box qualified in WTO. OECD studies question this qualification because of the effects on investments and risk behavior, an issue expected to be more discussed in a next WTO-round, whenever that may be.

One item elaborated in chapter 7 is the terms-of-trade effects of import protection and export subsidies. Koester shows that these effects are quite important, especially for a large player like the EU on international markets. Just these terms-of-trade effects explain in my view the exploding budget expenditures for dairy and the among German agricultural economists not very popular necessity to introduce the milk quota system in the 1980’s. They might also explain why price support could be replaced in a relatively budget neutral way by direct income payments in the Mac Sharry reform, whereas standard economic textbooks say that direct payments charges the tax payer much more than price support. Finally they might explain why it was even in the interest of the EU itself to agree with the Uruguay Round Agreement, an argument not frequently found in literature, neither in chapter 7.

Another aspect of the Mac Sharry reform not explicitly mentioned in this book is the changing balance between agricultural and industrial interests at the end of the Uruguay Round negotiations and especially in Germany. Aart de Zeeuw at that time DG Agriculture in the Netherlands Ministry of Agriculture and chairman of the agricultural negotiation working group in the Uruguay Round, asked us as his collaborators to watch especially the position of the Bundesverband der deutschen Industrie (BDI). Isn’t there a direct connection between the increasing pressure of this

organization on chancellor Kohl to positively finalize the Uruguay Round and minister Kiechle's ultimate acceptance of a more than 30% price decrease for cereals, this under the condition that the compensating direct payments should be everlasting and reliable? This policy change was of course also in the interest of France that could maintain its positive balance of payments effects of CAP, meanwhile not being blocked by the volume restrictions on subsidized wheat exports.

Chapter 8 discusses the question why the CAP is as it is. The explanation is partly based on political economy theories elaborated by Downs and Olson, and for agriculture by Hayami, Tyers and Anderson, and for another part by the institutional characteristics and the role of the various players in Brussels. Own simulations with students showed clear differences between economic and political rationality in decision making processes in CAP and WTO. The same has been experienced in the EU Council of Ministers of Agriculture. Policy makers consider quite well economic rationalities. But how to reach a compromise that can be sold to your own constituency? One of the solutions is to finalize the compromise only after a long marathon session, showing how hard the ministers had to negotiate and why they had to do concessions. The specific Brussels rules of the game with the decision making process in a specific Council of Ministers of Agriculture might be an important element, as Koester states. But experiences with decision making processes in combined councils of for instance Ministers of Agriculture and Finance or in the European Council were not always more successful in reforming the CAP, as for instance the Agenda 2000 European Council in 1999 in Berlin showed. And Koester has rightly doubts about the effects of the new co-decision role of the European Parliament also in CAP matters.

Chapter 9 finally deals with the development and perspectives of the EU agricultural market organizations (meanwhile transformed into one common market organization). It might be useful, as already mentioned, to discuss the first very useful descriptive part of this chapter before chapter 7 and to focus this chapter on future perspectives. What will happen with WTO, with international price levels, with public concerns about food safety, sustainability, animal welfare and genetically modification. Will public concerns lead to new trade barriers or to public or private standards that facilitate international trade by decreasing transaction costs? And will direct payments in the future be continued on EU level or increasingly return to the competence of national or regional authorities? And finally will the 60 billion euro per year agricultural budget as proposed by the Commission be maintained or even diminished in order to contribute to tackling the current economic and monetary crisis in the EU, which might be also for agriculture of much more importance than direct payments that largely are capitalized in land prices?

Not all these questions could intensively be discussed in Koester's book, partly because they rose only some years ago. But that does not diminish the quality, importance and actuality of the book. It should be considered to make it also available in English.

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