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## **«The Common Agricultural Policy in the 21st Century» with a link to Switzerland**

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Review by Stefan Flückiger, Lecturer for Agricultural Economics and Sustainability at the Zurich University of Applied Sciences (ZHAW), of «The Common Agricultural Policy in the 21st Century» from Erwin Schmid and Stefan Vogel (Hg.).

### *Abstract*

*Colleagues and collaborators of Professor Hofreither have written articles with a focus on the European agricultural policy, the political decision-making process, and multi-sectoral modelling. These issues, among others, played the main part in the broad research curriculum of Professor Hofreither at the University of Natural Resources and Life Sciences, Vienna (BOKU) over the last 25 years. During this time he has helped explain European agricultural economics to a Swiss audience from an Austrian point of view by writing from the perspective of alpine and small country farming culture, structures and practices. As such, the Festschrift edited by Schmid and Vogel contains valuable material for Switzerland.*

*This review discusses each of the nine contributions to the book in turn, finally drawing out particular questions and lessons for Switzerland:*

## Europe's experiences with agricultural integration and lessons for third countries

With this title, Alan Matthews gives an overview of the historical background of European agricultural policy. He outlines the objectives of the Common Agricultural Policy (CAP; art. 39 of the Treaty of Rome) and some of the conflicts surrounding it. Because of a high priority for farm income and the price support strategy for most products, market distortions and escalating budgets were the logical consequence. Mac Sharry (1992) and Agenda 2000 (1999) reforms introduced *coupled* direct payments (known as Pillar 1) and rural development payments (Pillar 2). European Union (EU) Commissioner for Agriculture Franz Fischler continued this policy after 2003 with the *decoupling*, i.e. direct payments were replaced by indirect payments. These currently require environment and animal health, as well as food safety obligations (*cross-compliance*).

In the last Section «*Lessons for third countries*» he could have given more information for countries discussing a similar process. Furthermore, in my view, some critical key points of the CAP-legacy are missed. Firstly, it would have been interesting to mention the negative global consequences of CAP which distorted the world market and had negative effects on developing countries and their food security situation. In this context, it has to be concluded that this political strategy in trade agreements (i.e. WTO) had far-reaching damaging effects on the developing countries in the long term. Afterwards, not only *political failures* i.e. missing reforms should be mentioned, but also *market failures* i.e. external costs that are not integrated (e.g. *polluter pays principle* or *management and preservation of public goods*). Finally, why were *science failures* not mentioned? For example, agricultural economic science did not grasp all of the challenges in the EU.

## Direct payments: A permanent feature of the Common Agricultural Policy?

Under this interrogative title Professor Stefan Tangermann profoundly and consistently highlights some critical key points. He asks if the system of direct payments will be «*fair and ecological*» and if the Common Agricultural Policy 2014–2020 will be «*efficient and transparent*». He concludes that in practice, direct payments did not meet these criteria. Tangermann emphasizes that modifications to the preceding policy was the introduction of new politically legitimating terminology, as for example, «*greening*» of policies. He discusses another modification, «*super cross-compliance*» which is intended to introduce new supplementary requirements, for instance, rotation farming or diversity of the landscape. He questions the «*effectiveness*» of these measures because this would be normal practice for farmers without payments (*Mitnahme-Effekt*/windfall gains). His self-criticism concerning the unlimited period for the system of direct payments, planned as a compensation instrument, is surprising. «*Auch der Autor dieses Beitrags war von dieser – wie sich jetzt herausgestellt hat – irrigen, wohl auch naiven Annahme ausgegangen, als er für Direktzahlungen anstelle von Preisstützung plädierte*» (p.39) [Even the author of this article believed this – as has now been found wrong, probably on the basis of a too naive assumption, as he pleaded for direct payments instead of price support].

Tangermann makes it clear that income support for agriculture is only a legitimate argument when it is targeted to clear criteria based on environmental and social policy. His conclusion is that the reform 2020 should be titled with «*targeting*» instead of «*decoupling*». According to him, the system is not just because, the reallocation of direct payments does not fit either the «*performance-related principle*» or «*needs-related principle*». The latter is not given because of the missing social criteria needed for payment. That requires that the payment should be «*means-tested*» and is dependent on the income of the farmer. However, the first is also not fulfilled because of the missing linking to clear criteria. Even if ecological

criteria are justified, they should consider the demand of society and scarcity and the fact that public goods are not produced by the market. Professor Tangermann states that the transaction costs of using clear criteria will be much lower than the economic losses related to the common income support policy.

## **«Greening» as justification for the keeping of the redistributive character of agricultural policy? Policy discourse of CAP 2020 reform**

Emil Erjavec and Karmen Erjavec address this question in the following article. By carrying out a discourse analysis of the CAP 2020 reform's documentation, they reveal that «*traditional discourses were refashioned with new keywords and highlights*» (p. 60), and the «*guarantee of food security*» reinstated. The European Institutions justified the CAP with a transformation of key discourses i.e. productivistic, multi-functional and neo-liberal, by placing emphasis on the widely popular environmental element. Also included are measures against *climate change* and for «*green growth*»/«*greening*». The significant share of subsidies (30 %) will go to rewarding farmers for «*the provision of environmental public goods*» (p. 54). However, more than 60 % of the total funds for CAP will still cover productivistic measures e.g. basic payments, coupled payments. The authors emphasise that «*the present reform is, in many aspects, a compromise of possibilities and the influence of various actors*» (p. 62). They see that as controversial too and they summarize «*Such an approach to defining CAP cannot result in its long term justification, which was precisely the original purpose of the CAP reform*» (p. 62).

## Abstracts of the remaining articles

Paul Feichtinger, Klaus Salhofer, Franz Sinabell and Stanley Thompson in *«This land is your land, this land is my land – Who benefits from agricultural subsidies?»*, measure how much of the subsidies are captured in the land rental price. Based on data in Bavaria, they show that *«36 % of coupled area payments and 8 % of coupled animal payments, before the 2013 Fischler Reform, were captured in land rents. Single Farm Payments after the reform, capitalize to an even higher extent of 47 %»* (p. 67). With these results they calculate that the share was increasing to almost half the amount of Single Farm Payments capturing the land rental prices. Furthermore, increasing market prices will also improve the willingness of farmers to pay for rental land prices. The leakage of payment from tenant farmers to landlords influence the incidence of government payment and is in total amount even higher in areas with a large share of rental land (Germany 60 %, Bavaria 42 %). That means, lower payment would decrease the asset values of landlords, but also rental costs of tenants.

Christoph Weiss in *«The evaluation of farm policy measures as a challenge for agricultural economics»*, analyses in which circumstances the evaluation of farm policy measures can produce non-distorting results for political decision making – especially in heterogeneous effects and social interactions. Taking into account the increasing transfer of financial resources from Pillar 1 to Pillar 2, the evaluation methods are faced with new challenges. The reason is that the effects of price and market measures in Pillar 1 are easier to model than the policy measures in Pillar 2. This methodological diversification is a further contribution to break the traditional framework with *«homo economicus»* to the more adequate elements from *«behaviour economics»* or *«revealed preferences»*. This article, thus, shows strategies to reduce biases in common evaluation approaches and supports the development of a distortion-free policy evaluation.

Ulrich Morawetz in «*A concept for a randomized evaluation of agri-environment measures*», proposes a framework for randomized evaluation of agri-environment measures (AEMs). The AEMs are part of the CAP. Because the budget for AEMs will still be increasing, this methodological issue will be more relevant. The special challenge is that economists have to focus on estimating behaviour change (step 1). Then the environmental scientists have to estimate the impact of the changes in behaviour on the environment (step 2), the outcome. Morawetz makes it clear that agricultural economists must do the first step «*in a way that provides environmental scientists with information detailed enough for second step*» (p. 116). His concept leads to better quantification of the impact of public spending on environmental friendly farming.

Kurt Kratena and Gerhard Streicher in «*FIDELIO's ADAGIO – A family of regional econometric input output models*», explain their methodological framework. This framework has been applied at various geographic levels, ranging from the district level in Austria to a 41 region world model. «*This model framework allows consistent economic linkage between agricultural and other sectors of the economy, as well between regional and global economy levels*» (p. IV). Although, not a typical *General Equilibrium Model*, it is amazing what progress these models have achieved in recent years. For instance, the integration of equilibrium behaviour, making it more dynamic, and the integration of trade and environmental aspects.

The last two articles again pay special homage to Professor Hofreither's academic career. In «*Structure and income data of Austrian agriculture*» by Walter Schneeberger, we are reminded that this issue was a particular concern for Professor Hofreither, together with structural and income progress. Friedrich Schneider recalls in «*Shadow economy and corruption in Germany, Austria and Switzerland: Some facts*» that this was among the first research topics of Professor Hofreither's academic career.



## Conclusions relevant to Switzerland and personal comments

In Switzerland we can take advantage of this book and ask if the *green refashioning* of traditional discourses, as described by Erjavec and Erjavec, or the critical key points, highlighted by Stefan Tangermann, were included in the Swiss Agricultural Policy AP 2014–17. For example, do we have specific and clear goals for all direct payments (*targeting*)? Is each of the goals fulfilled effectively and efficiently? Do the payments correspond to the demands of civil society (*public goods*) or do the polluters have to pay for their polluting emissions? Furthermore, an analysis of whether the contents of the reform's AP 2014–17 documents were adequately implemented into the measures and budget distribution would have been of value. As with the research of Erjavec and Erjavec in the EU, it would show whether the political modifications were justified by their widely popular elements. Whether frequency of occurrence of the terms *food sovereignty*, *sustainability* and *animal well-being* in the texts on agricultural policy for 2014–2017 (Botschaft zur Weiterentwicklung der Agrarpolitik), at 19, 72 and 59 times respectively, serve as indication remains open.

Finally, I was fortunate in having many chances to meet Professor Hofreither while writing my dissertation and have always appreciated his openness to new ideas as well as his continued interest and input into Swiss Agricultural Economics. Thus, at the annual meeting of the Swiss and Austrian Agricultural Economists on 12–14 September 2013, I participated in his workshop «*Economics for non-economists – orthodox bases or problem-centered pluralism?*» He confirmed that he had always remained interested in alternative ideas and new issues. Moreover, he was open to thinking critically about neoclassical economics and discussed alternative approaches for agricultural economics.





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