

STATE AND AGRICULTURE. SOME RECOMMENDATIONS ON AGRICULTURAL POLICY

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Abstract

The main purpose of the paper is to make a critical analysis of government policies regarding agriculture. The reason of this approach is that, over time, various nations have tried many methods to develop this sector seen as vital especially in the conditions of the demographic growth. Most governments have considered agriculture as a strategic area that should enjoy preferential policies. However, despite of huge amount of resources voulme spent by public authorities , the results were below expectations in many times and in many countries. This analysis uses the specific methods of modern economic theory to show that the competitiveness of agricultural sector does not depend primarily on the volume of resources invested by government but on a framework that fosters private investment, an adequate policy of incentives, on the degree of liberalizing trade with agricultural products. The interpretation of statistical data and the use of the elements of quantitative analysis leads us to conclude that the development of the agricultural sector primarily depends on the role played by free markets. Government policies are only adjuvant to be dealt with the infrastructure, with a basic educational level of labor force and a minimum health care for people living in rural areas. The comparative analysis of data from the U.S. and the European Union economies supports this conclusion.

Key words: agrarian policies, preferential policies, open markets, productivity, resources

INTRODUCTION

Economic developments of the last half century have highlighted the fact that agricultural production has been increasingly subject to government intervention. There are many reasons for this situation. Many experts have recommended the government intervention for reasons of food security in view of population growth after the Second World War. Other experts, especially in Western Europe, supported the interventionism for the retention of part of the active population in rural areas in despite of the natural, historical trends that shows that when the economy develops, the population tends to leave rural areas for urban areas. To remove this "cultural imbalance", European governments have treated the agricultural sector with special attention trying to avoid the disappearance of rural, traditional areas. Another reason why agriculture has received special attention from the authorities is due to the immense pressure created by the trade union

movement of this sector. All these conditions have led governments in recent decades to be involved deeply in agricultural activities. Therefore, the agriculture of these countries benefited from preferential policies, the increased volume of grants, protection through customs duties and other trade tools. Despite these measures, the results were, in many cases, well below expectations. That is why the need to achieve both a critical analysis of government intervention in agriculture, and on the other hand, to make some recommendations to follow for designing future policies in this field.

MATERIAL AND METHOD

The main purpose of the paper is to demonstrate that the agricultural policies of many countries of the world must undergo to a comprehensive process of reform because they do not achieve their stated objectives. To reach this conclusion, we have taken as the basis a significant volume of data that we analyzed using the classical economic

theories of scarce resource allocation. Therefore, we analyzed the evolution of spendings for the farming sector as a share of total public expenditure focusing in particular on data from Western countries. To highlight the economic effect of increasing government funding for agriculture, the comparisons were made with the dynamics of the labor force working in the field of agricultural production, trying in this way to highlight, in a synthetic manner, the overall productivity of this sector compared with the overall performance of the economic system. The recommendations derived from the analysis are based on theoretical foundation conclusions drawn from comparative analysis of a series of statistical data provided, firstly, by the U.S. economy, on the one hand, and by the European Union, on the other hand. We utilized this type of comparative analysis because the agricultural sectors of the two economic entities presents, in terms of agricultural policies, both similarities and differentiations. In the same time, the interpretation of statistical processed data highlighted the fact that as the degree of government intervention in the agricultural sector increases the distortions in the allocation of resources are becoming more important. The use of the comparative analysis allowed us to show that, as a rule, the agricultural policies in Western countries gives support to producers with political influence, that the decisions to support the agricultural production is not based on economic considerations. Moreover, the processing of the available information shows that the agricultural policies of developed countries tend to become increasingly expensive, to limit competition between indigenous and foreigners, to disadvantage the agricultural areas of developing countries.

RESULTS AND DISCUSSIONS

In the last half century, the literature notes that the agricultural sector was one of the favorite areas of government intervention. Typically, the reasons invoked to support the agricultural sector from public funds comes,

on the one hand, from the continuing fear of a major food crisis caused by rapidly increasing world population and, on the other hand, from the massive migration of labor force from rural to the urban. Equally true is the fact that farmers were able to form a force of significant pressure on public authorities. For these reasons, governments of the world, including those of Western countries, have treated agriculture as a privileged domain. Basically, we find that in the last half century, the agricultural production depends on a growing degree of increased administrative decisions of government bureaucracy than the open market. Instruments that regulate the activities of this sector are the classics: subsidies, price controls, restricting competition through customs duties, quotas, licensing for cultivation of certain crops or areas.[2]

Among the tools used by Western governments, the subsidies appear to be most common. This is very visible both in agriculture the European Union and in the agricultural sector of the United States. The proof of exponential growth of government intervention in the agricultural sector is the share of the increasingly high volume of a funds allocated as subsidies to farmers in Western Europe. Today, the Western farms receive annually about 50% (46.7% in 2006) of the European Union budget which in absolute terms is about 50 billion euros for an annual production of less than 150 billion. However, there were periods when the share of funds for the agricultural sector reached 60% of the European Union budget. [4] This means that one third of farmers' income is guaranteed by government. From an economic point of view, we are dealing with a serious imbalance demonstrating that the agriculture sector is treated in the European Union through preferential policies. Initial justification for designers of these policies was to preserve the traditional character of Western society by maintaining a significant volume of people in rural areas. However, the labor force migration to urban areas has not been hampered in despite a consistent support received by the rural population by guaranteeing revenue. Following this policy,

in the EU countries, only 5% of the population (living and working in the agricultural sector) receives half of the annual budget of the European Commission. This shows that, directly or indirectly, the farmers in Western Europe get much of their income from taxpayer's pocket and not from its own effort and this situation encourages anti-economic behavior and a poor allocation of scarce resources. The series of anomalies due to government intervention does not stop here. The estimates made in the OECD shows that these countries' farmers receive as an annual aid about 280 billion dollars which means that each year every family of these countries finances the agricultural sector directly (taxes and duties turned into subsidies) or indirectly (higher prices paid by restriction competitive market for agricultural products) to approximately \$ 1000. The authors of Human Development Report have calculated that in 2000, the subsidy received by a cow in the European Union was 913 \$ while the a citizen of a country in Sub-Saharan Africa received was only \$ 8. [6] To illustrate the size of the imbalances created by government, Johan Norberg calculated that citizens of OECD paid directly or indirectly to agriculture annual an amount that would allow cows from farms OECD to fly with business-class around the world with \$ 3000 in its pocket for shopping in duty-free.[1] The scope of the subsidies paid by the budgets of these countries is to cover the difference between the high costs of agricultural production and prices at which products are sold on the market. Today, most prices of agricultural products are subsidized. For wheat, for example, the subsidy exceeds 60% of the final price. Equally important is the distortion for the export of sugar. Thus, for a quantity of sugar exported equivalent to 1 euro, the European Union granted a subsidy of 3.3 euro. In the United States, each bushel of wheat sold is subsidized by 52 cents. [5] Such a policy will lead farmers to expand their production and to increase their demands for government subsidies. But at the whole economic system this means that the productivity becomes lower. This is because the subsidy means a forced transfer of resources from an area capable to produce

added value to the less efficient one that is unable to finance their own activities. As a consequence, the government policies of subsidizing agriculture sectors artificially restrict overall performance transferring profitable resources to less productive sectors. The low performance is highlighted by the fact that although in the agricultural sector in Western Europe works 5% of the active population, agriculture's contribution to the creation of GDP amounts only 3%. In the same time there a great inequality in the distribution of these subsidies. Thus, nearly 40% of the total subsidies allocated to Western Europe agriculture go to only 2.2% of farmers. Of this imbalance we can conclude that farming subsidies are not allocated departing from the principle of helping farmers with low possibilities, but a tool to extract benefits for personal or well organized groups. In the European Union, the most farmers (80%) receive an annual direct payment of up to Euro 5000 while only 2.2% of them receive a higher amount of 50,000 euros. This discrepancy is visible too in the agriculture of the U.S. where 80% of farmers receive about 7000 \$ annually while the average subsidy is 16,000 \$. Moreover, in the last 15 years large farms have been able to obtain government funding for three times higher while small farmers receive the same amount. The degree of overall European agricultural productivity has declined by joining new members. In this way, the number of farmers increased by nearly 60% of the cultivatable area recorded an increase of 30% while the value of production saw a jump of only 10-20%.

Another way that many states are involved in farming is the practice of restrictions on foreign trade. To ensure high-income farmers, many states set duties on imports artificially increasing the sale price of agricultural products. In Western countries, customs duties on imports of agricultural products is on average higher by 30% than the world average. This technique restricts competition providing to local farmers an income higher than that would be obtained under conditions of free trade. However, the favoring domestic farmers is detrimental to consumers and foreign farmers. In fact, the

domestic consumers pay higher prices subsidising without consent the income national farmers while the foreign farmers lose because being unable to sell outside the country borders. The UNCTAD studies show that those most affected by the protectionism of the EU and U.S. are the farmers of developing countries who lose annually about 700 billion dollars because they can not sell their products in markets protected by high customs barriers. This amount is 15 times greater than the external aid provided by developed countries to developing countries. The custom barriers impede competition from foreign agricultural products, diminish domestic supply, increase artificially domestic prices, causing a forced transfer of income from consumers of agricultural products to protected farmers. From this process, consumers lose twice. First, they finance the public subsidies fund for agriculture and secondly pay higher prices for agricultural products due to restriction by competition. It is estimated that in the European Union the losses suffered by consumers through artificially high prices are about 50 billion euros annually. Basically, the government intervention force the consumers of agricultural products to finance farmers' income by this amount.

There are a lot of other instruments by which the state intervenes in the agricultural production. One of these relates to price control. To ensure a certain level of income, the European Union member states establish minimum price caps, levels below which the products of the agricultural sector can not be traded on market. The justification for such intervention is that, in this domain, the production costs are too high causing the lack of farm profitability. However, such type of intervention produces serious distortions in scarce resource allocation encouraging the production which would not exist in the free market. The support of prices through government aid produces in the Western European countries a chronic overproduction of agricultural products. To avoid the collapse of prices, the government buys these overproductions using the taxpayers' money forcing them on the one hand, to finance the agricultural subsidies, to pay higher prices

due to minimum limits, and on the other hand, to finance the purchases of this overproductions from their proper pocket. Therefore, the policy of guaranteeing minimum prices for agricultural products shows clearly that, in fact, government support for agriculture is to the detriment of consumers and taxpayers. The analysis of agricultural policies in the last half century shows that the substitution of free market mechanisms with the decisions of the government bureaucracy has created in all countries considered important distortions in resource allocation, which diminished the productive potential of the economic system as a whole. Basically, in many developed countries, the agriculture sector has become heavily funded by taxpayers without their express agreement to that effect. Slowly, government policies have transformed the agricultural sector from one that supports the prosperity of citizens in one that is supported by the these. The subsidies have provided guaranteed income to producers regardless of their agricultural market which has encouraged an attitude inconsistent with economic rationality. The guaranteed prices of agricultural products resulted in ignoring the costs of production which has made farming an expensive area. Therefore agriculture produces only 1.9% of the value added of the European Union despite the fact that owns the twentieth part of the workforce. The guaranteed minimum prices has created important annual surpluses of stocks. To avoid the collapse of markets, were bought by governments, ie, using, once again, the income American and European taxpayers. Worse is that the United States and the European Union have come to keep prices high for farmers, to provide forms of income to farmers not cultivating their land. In other words, despite the fact that everyone complains of a possible food crisis, the government rewards farmers to reduce production. All these discrepancies, distortions, anomalies have turned agriculture into a large consumer of resources and an important source of reducing the potential of the economic system. To reduce the magnitude of these imbalances, the governments that practice these policies,

must project a comprehensive reform program which, in a reasonable time horizon, to transform agriculture into a performance area, an important source of creating value added not a big consumer of resources.

The analysis of statistical data and their interpretation from the perspective of conventional theories of scarce resource allocation lead us to the conclusion that both U.S. and especially the European Union agriculture must follow an extensive program of reforms which aim must be to limit the degree of involvement of government intervention and the widespread reintroduction of the free market mechanisms.

The first measure should be taken to avoid distortions in the field is to remove price controls. In an economic system, the free prices is only possible way for rational allocation of scarce resources, the only acceptable way to connect needs with the interests of producers. Therefore, the policy of the European Union must propose phasing out minimum prices apart from the duty free market to determine the negotiation of free consumers of agricultural products and farmers. In this way, the actual prices would fall which would allow access to a greater number of individuals in the consumption of food.

Secondly, the agriculture of Western countries needs a comprehensive review of policies for agricultural subsidies. Annually, only EU citizens directly contribute 50 billion to subsidize farmers in their countries. In fact, this amount shows that EU citizens support a production that otherwise would not receive the recognition of the free market. If governments would give up such a policy, this amount should remain available to taxpayers and should be directed to other goods which would give rise to production of similar size in other parts of the economic system. Inevitably, the reduction of subsidies will lead, in the short term, to the liquidation of some farms but the contraction of the agricultural sector maintained artificially through subsidies will be offset by extending that sectors to which will be the channeled the annually amount of 50 billion euros, amount representing the agriculture

subsidies. Obviously, Western governments may retain a portion of these funds; it would be preferable to invest some amounts in agricultural research and education. Removing subsidies in developed countries would have positive effects on poor countries or developing countries. A country like Mali receives annually an external aid approximately 37 million dollars but lost 43 million of revenue due to decreased export of cotton because of unfair competition which rich countries subsidize the cultivation of this product [3]. The waiving of grant would not only lead to substantial savings for citizens of rich countries but it would enable many poor countries to properly compete with farmers in the West. This is of paramount importance if we take into account that in poor countries about 60% of the labor force works in agriculture. Moreover, many farmers in poor countries produce agricultural goods at prices 50% lower than the West but this advantage is removed by grants awarded in poor countries. Under conditions of free competition for this low price would benefit consumers and Western.

A major source of distortion in western agriculture is due to the trade barriers. The analysis of the degree of trade protection in developed countries shows that customs duties in the area of agriculture are at least double compared to those of manufactured products. The customs duties and other trade barriers reduce the degree of competition artificially keeping prices at high level. Basically, these instruments of trade policy operates as an indirect subsidy to protected farmers by ensuring them an unjustified revenue. There are studies showing that the abolition of trade barriers will lead to significant decreases in prices for agricultural products bringing 350 billion dollars as estimated profits for farmers in developing and poor countries. To avoid radical changes in the market of agricultural products, the Western countries should sign an agreement which intend a gradual reduction of customs duties and abolishing all trade barriers. Should be considered a reasonable time so that in the plans of farmers to not intervene sudden changes which could cause significant losses in the short term.

CONCLUSIONS

Interpreting statistical data through the filter of conventional economic theory shows clearly that state intervention in agricultural production has created serious distortions in the allocation of scarce resources. Although the original intention of government was to support a vital sector of activity, government policies have reduced the competitiveness of agriculture transforming this area into an area funded by taxpayers and consumers. Although Western governments have sought to support the agricultural production of various reasons, the passage of time has shown that the support has become one of the long term. Today, the most efficient agricultural system in the world has turned into a sector dependent on government funds, unable to provide economic support alone. This has created serious problems of productivity in the agricultural sector compared with other sectors of the economic system. The analysis of agricultural policies in western countries has shown that lack of competitiveness of these is transferred first to the payer of duties and taxes, then to the farmers in poor countries or developing countries. The elimination of these anomalies means a gradual rereduction of government support for agriculture. To transform the agricultural sector in an area of high performance, governments should eliminate

price controls, to eliminate the barriers to world trade in agricultural products, to reintroduce the free market mechanisms. Economic theory supported by statistics and facts shows that this is the only way to transform an agriculture sector from one that wastes resources in an area that creates added value.

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