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METHODS TO EVALUATE THE AGRICULTURAL POLICIES AND THEIR RELEVANCE FOR ROMANIA

METODE DE EVALUARE A POLITICILOR AGRICOLE ŞI RELEVANŢA LOR PENTRU ROMÂNIA

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Abstract: *The findings of the studies and reports reviewed in this paper were grouped into two large categories - studies regarding agricultural policy evaluation devoted to the developing countries and to the developed countries - highlighting the differences between the problems and evaluation tools used by each category. The case of Romania, with its agricultural sector preserving certain characteristics of the developing countries, yet having to comply with the rules of EU institutions, was analysed in the context of the necessary response to the major challenge of anticipated evolutions of the agrarian structures, in the context of new CAP reform .*

Key words*: agricultural policies, policy evaluation, CAP reforms*

INTRODUCTION

The identification of historical agricultural policy models applied in the developing and developed countries reveals quite a paradoxical situation: the governments of the industrialized countries distort their own economies by protecting the farmers, while the governments of the developing countries, by taxing farmers, contribute to even a higher distortion of their economies (Lindert, 1990). The post-war agricultural policy analysis revealed two patterns that guided the agricultural policies in this period: 1) the pattern of developed countries, which presupposes that the more developed a nation is, the more its government favours agriculture; 2) the anti-trade patterns, which presupposes that governments have the tendency to tax exporting goods agriculture and to protect agriculture producing goods that compete against imports.

Both approaches seem to be in conflict with the economic models of the efficient allocation of resources. As Mahe (2004) noticed, the policies practiced by the industrialized countries, which favoured the fight against certain market failures – such as disparity of incomes, sectoral gap or agriculture instability, as well as the anti-agriculture biased policies of the developing nations made the market failures give way to state failures.

Starting from this finding, the conclusions of the investigated agricultural policy studies were grouped into two large categories, studies devoted to the developing countries and studies devoted to the developed countries, highlighting the differences between the problems and evaluation tools used by each category. However, Romania is not included in any of these categories, its agricultural sector preserving certain characteristics of the developing countries, yet having to comply with the rules of EU institutions.

MATERIAL AND METHOD

The descriptions, analyses and debates of public policies can follow several scientific approaches, namely: the descriptive approach, which responds to the questions referring to the policy objectives and instruments; the historical approach, which describes the evolution of policies; the juridical approach, which explains the rules and modality by which these are interpreted by the authorities; the theoretical approach, by which the causes and effects of the policies are determined; the normative approach, by which recommendations on the policy objectives and instruments are made.

As regards the theoretical approaches, there are three important research directions: the approach to targets and instruments, which represents the direct economic policy analysis method, requiring the policy target identification, i.e. the objectives that have to be reached, and the choice of policy instruments, i.e. the methods that lead to reaching the targets; the approach to public elections, which try to explain the government's behaviour on the basis of attitudes and behaviour of voters, political parties, pressure groups and bureaucrats; the institutional approach, which focuses on the institutional environment of policies and on the institutional arrangements, the most important characteristics of the institutional framework being the ownership rights, the markets, contracts and transaction costs. The results of the agricultural policy evaluations presented in this paper generally come from studies that use the approach to

targets and instruments and the institutional approach rather than the approach to public elections.

RESULTS AND DISCUSSION

Analysis of agricultural policies in the developing countries

The intervention of the governments from the developing countries upon the agricultural sector is motivated by two fundamental arguments: on one hand, the belief that certain interventions can accelerate the economic growth rate, mainly the investments in transport infrastructure, education and health, which are not usually assumed by the private sector; on the other hand, the need to correct the market failures, these failures being generated by the inability of the private sector to develop the necessary institutions for the efficient operation of markets, as well as in the case of rural credit, or being the result of externalities, as in the case of soil erosion or pollution.

However, in the developing countries, the most frequent motivation for the governmental intervention is represented by the promotion of inefficiency objectives, either as a result of the mandate received from the society or in response to the demand of certain groups of interest inside or outside agriculture. Among the inefficiency objectives, the following can be listed: 1) worries in relation to income distribution, which are attenuated by maintaining certain low food prices, but which also reflect the influence of certain rent seekers through the allocation of import and export licenses of agricultural products; 2) the need to stabilize prices, which leads to the control of world trade, to the introduction of storage schemes, to price fixing or even to consumption rationalization in order to avoid significant price fluctuations; 3) ensuring food security, which imposes measures for increasing the domestic production in the importing countries; 4) ensuring a significant contribution of agriculture to the state budget.

Evaluation of agricultural policies in the developed countries

In the last decades, international institutions such as the OECD and the World Bank became main actors in the debates on the agricultural policies, making pressures for an increasingly market oriented approach. The World Bank had an increasing role in counselling the Central and East-European Countries on the transition in agriculture. OECD had a long-term influence on the agenda and conditions of international debates on the agricultural policies. In 1998 the ministers of agriculture from the OECD countries defined the operational criteria of the set of policies necessary to enable the markets to influence the long-term orientation of agricultural

production. These criteria were linked to the transparency, targeting, decoupling and adaptation of the size of subsidies to agriculture.

The systematic concern of OECD for reforming the agricultural policies made the annual evaluations of agricultural policies be added to analytical works that evaluate the reform processes of the main global players on the agricultural markets. Thus, in 2011, two important reports were published from the perspective of international trade liberalization, one referring to the agricultural reforms in the United States and other to the agricultural reforms of the European Union. In the case of the United States, the preliminary analysis of the agricultural legislation adopted in the year 2008, following that from 2002, suggests a limited progress in the market orientation of the US agricultural policies, due to the maintenance of a set of agricultural policies with different objectives, from the traditional ones aiming at agricultural production stabilization and support to agricultural incomes to the newly introduced policies meant to ensure an adequate nutrition, food safety and encouraging environment protection (OECD, 2011a). By contrast, in the European Union, the Common Agricultural Policy reforms in the last decades significantly and steadily increased the market orientation of the agricultural sector, reduced the distortions and improved CAP capacity to transfer incomes to farmers. The decrease of distortions inside EU and on the world market made it possible for the European farmers to benefit from the market opportunities of a strong and diversified demand, as well as from the high prices of certain commodities whose level is expected to remain high (OECD, 2011b) .

Since 1987, OECD has annually published a monitoring and evaluation report on the agricultural policies. In the year 2010, PSE was 18% in the OECD area, indicating a support that would mean almost one-fifth of receipts, down from 40% in 1987. The last report examined 45 economies, i.e. the OECD member states plus five emergent economies that play a main role on the agricultural and food markets (OECD, 2011 c). The agricultural policies of the investigated countries differ both by the policy instruments that are used and by the support size; yet they have something in common: ensuring a stable food supply, reasonable incomes for farmers, agricultural sector competitiveness and a sustainable use of natural resources.

The evaluation of the agricultural policies of the investigated countries revealed the following two main tendencies: stabilization of the

total volume of fiscal transfers, which are lower in the case of emergent countries, where the direct payments to farmers also have a lower importance compared to the OECD countries, being compensated by a higher share of transfers for investments in the general services, mainly in infrastructure; a diminution of the gap between the domestic prices that receive support through interventions and the world reference prices, as a result of the increase of prices on the world markets in 2010, resulting in a diminution of the Market Price Support.

From the political economy perspective of agricultural reforms, in Swinnen's opinion (2010), the interaction between the different types of public policies sometimes makes the agricultural and food policies be elements from a larger package of reforms, and these can be used to obtain approval for other reforms. For example, the agricultural protection can be interpreted as part of a social contract that provides for a strong investment in research and innovation at the level of the entire economy. These investments lead to productivity increase and foster economy restructuring, while agriculture protection is used for the amortization of transformations impact, by protecting the less mobile economic operators. At the same time, a package of compensations can be also used inside the agricultural sector, as it was the case in the decision process for the CAP reforms. The effects of the two approaches are somehow different: the agricultural policy reform as part of larger reforms may lead to the diminution of distortions, as it was the case in the Central and East-European countries, or it may lead to their amplification, as it was noticed in the case of compensations provided under the CAP reform.

Romania: the challenges of the transformations of agriculture

In Romania, as well as in the economies of the other Central and East-European Countries, in the transition period agriculture continued to play a more important role than in the developed market economies, both by its share in GDP and in labour employment. The reform process initiated in 1990-1991 in the countries in transition was monitored by the World Bank by means of an agricultural policy matrix. For each country a matrix was developed by which each year, since 1997, the situation of five basic elements has been evaluated: prices and markets; land reform; agro-processing; rural finance; institutional framework.

Romania was placed in the group of moderate reformers, with an average score on the rise from 6.0 in 1997 to 7.0 in 2000, being the only

candidate country to EU accession that was not in the group of fast reformers. In 2003-2004, when this evaluation stopped, with the accession of several countries in transition, Romania's score was 8.2. A re-evaluation of the situation of agriculture from the EU New Member States, Romania and Bulgaria inclusively, in the spirit of the same approach, revealed that the accession to the EU had generally a positive impact both on the consumers and on the agricultural producers, but the impact on different countries was influenced by the quality of accession preparation as well by the agricultural policies from the pre-accession period. On the other hand, it was found that although the agriculture in the region had a huge potential comparative advantage, its utilization was constrained by the limited competitiveness of farms, unlike the fast restructuring of food markets and the great re-organization of the food sale system. Finally the lack of adequate agricultural finance was mentioned, which represented one of the most critical constraints to agricultural growth (Csaki and Forgacs, 2008).

The expectations regarding the European agriculture evolution in the horizon 2020 are based, beyond the hypotheses referring to the removal of global trade barriers under WTO and the increase of the agricultural demand in the emergent countries, on a tendency that can put Romania's agriculture in quite a difficult position: the consolidation of a European Single Market of agricultural products with high value added, as a result of the strict food safety, food quality, ecological sustainability and animal welfare standards. This tendency is the result of a knowledge and capital intensive agriculture. Certain authors consider that EU agriculture will benefit from the world trade liberalization, due to a comparative advantage in relation to other parts of the world, not only due to the weather conditions and soil fertility, or because it has a large and rich domestic market, but also because it has a great stock of knowledge, developed in time, as a reaction to the demand of high quality agricultural products at a relatively low price. Thus, the most important production factors of EU became the capital and knowledge, unlike the cheap labour and land on which the traditional theory of comparative advantage was based (which also lies at the basis of the cost advantage attributed to the developing countries nowadays). For getting in line with the EU trend and to benefit from the agriculture orientation measures funded by CAP, Romania has to bridge up the gap in the endowment with these two key factors, for which the farm structure adjustment proves to be necessary.

As regards the structural changes in the EU agriculture, the study Scenar 2020-II (ECNC, LEI, ZALF, 2009) forecast that a decline of the primary production per total EU will take place, but its effects are unequally distributed between the member states, due to the great variety of agricultural structures, as well as of the different competitiveness levels. In the crop production sector a production increase is expected, as a result of an increase of yields (reflecting the improvement of technologies), which may lead to the decrease of agricultural land areas devoted to the respective crops. As regards the employment, the impact will be different upon the production systems from EU-15 and EU-12. In the case of the New Member States, the presence of a relatively great number of small inefficient producers will lead to a decline in incomes, in the first place due to the incapacity to benefit from the scale economy as it is the case in the larger units from the Old Member States. A diminution of the labour force employed in agriculture will appear, which together with the labour rationalization from the industry still under restructuring will create a migratory pressure from the rural to the urban areas, and from the Eastern to the Western countries. The productivity growth will result in the decrease of the agricultural land prices. At the same time, there will be a major impact upon the farm structure, under the form of diminution by one-third of the total number of holdings, from 11 million in 2003 to 7 million in 2020; this diminution will be different in the two categories of member states: by 40% in EU-12 and by 25% in EU-15. The ineluctable restructuring of the agricultural sector will lead to two different agricultural systems: on one hand, holdings that follow a specialization trend, system based on field crops, horticulture and animal husbandry, milk production respectively; on the other hand, systems based on animal husbandry and ensuring the fodder from different crops, together with uncultivated land areas that are going to be set aside.

CONCLUSIONS

Romania’s response to the major challenge of these dichotomic evolutions of the agrarian structures should be formulated in the context of its EU membership, starting from the agricultural policy instruments from the Legislative Proposal of the European Commission on post 2013 CAP reform, which should add to interventions based on certain national instruments that do not contravene CAP. From the point of view of the

facilitation of structural adjustment processes, it can be estimated that a defining element for post 2013 CAP is the intensification of the policy orienting the European farms towards a certain size that should ensure their competitiveness, without ignoring the ecological and social size. Both the instruments of Pillar 1, whose goal is to ensure reasonable incomes to farmers, and mainly the instruments of Pillar 2, responsible of farm modernization financing, give the member states the possibility to define (sometimes obliging them to make a certain choice) their own programs supporting the agrarian structure transformations.

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