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## CONFERENCE REPORT

### ASSESSING RURAL DEVELOPMENT POLICIES OF THE COMMON AGRICULTURAL POLICY

Economic analysis of the Common Agricultural Policy (CAP) has so far focused mainly on the CAP's first pillar (market policy). Deeper economic analysis of rural development (the second pillar) has not yet occurred, although this policy is of increasing importance. Analysis of this area is essential for agricultural and economic policy and it will certainly enrich the science of applied economics.

The 87th Seminar of the European Association of Agricultural Economists (EAAE), which dealt with the topic of *Assessing Rural Development Policies of the CAP*, was a significant step in that direction. The conference was held on 21–23 April 2004 at BOKU, the University of Natural Resources and Applied Life Sciences in Vienna, Austria.

The seminar organised by the Federal Institute of Agricultural Economics (Bundesanstalt für Agrarwirtschaft) in collaboration with the Austrian Association of Agricultural Economics (ÖGA – Österreichische Gesellschaft für Agrarökonomie), the Austrian Institute of Economic Research (WIFO – Österreichisches Institut für Wirtschaftsforschung), the Federal Institute of Less Favoured Areas (Bundesanstalt für Berbauernfragen) and the Institute of Sustainable Economic Development of BOKU was opened by Karl M. Ortner (Federal Institute of Agricultural Economics, Vienna).

When analysing the entirety of the national economies of the European Union, the importance of the different subsidies – including regional and rural development schemes – becomes obvious. Over the course of integration, rural development (RD) has played a major role only briefly. (The integrated RD regulation was issued in 1999.) Nonetheless, in retrospect we can identify the roots of the regulation in various places. The effects of this policy still need to be examined, and its efficiency is yet to be proved. The results might lead to changes in the policy in the end, but in the meantime some methods and processes – including those still to be developed and improved – are considered a significant contribution both to practical and applied economics.

The topics on RD policy objectives, design and implementation, methods and data for monitoring and evaluation of RD policies, farmers response to the Common Agricultural Policy re-oriented towards a multifunctional and territorial strategy were presented and discussed in several sessions and in the course of speeches held by invited speakers such as Franco Sotte (University of Ancona), Dirk Ahner (DG AGRI, European Commission), Elmar Ritzinger (Federal Ministry of Agriculture, Forestry, Environment and Water Management, Austria), Elena Saraceno (Group of Policy Advisers, EU Commission), Bruno Vindel (Ministry of Agriculture, France). As there was a high number (approximately 50) of high-level papers presented, the aim of this report is to share some of the most interesting and instructive thoughts.

Sotte inspired the participants in his welcome presentation: *From CAP to Common Agricultural and Rural Policy for Europe (CARPE): the state of the question*. He argued that the EU should focus on rurality not only from an agricultural point of view but with a more complex approach. Although the results of the Mid-term Review and the Salzburg Conference have already given a clear sense of appropriate next steps, there is still a lot to be done regarding an integrated rural policy. The sectoral character and the redistributive role of the CAP are still too restrictive. Sotte stated that the policy had to move into the direction of CARPE. The “second pillar” (RD) must gain more importance and should be financed to a larger extent by the Community budget. There is still a lot of work ahead of the EU during enlargement, and the new WTO negotiations, the new planning of structural policies and the new financial perspectives for the 2007–2013 period are going to leave their mark on the whole process, and these factors are expected to shape the future of agriculture and rural development.

In the session about *Policy Objectives* Sabine Baum (co-authors: C. Trapp and P. Weingarten / Institute of Agricultural Development in Central and Eastern European Countries, External Environment for Agriculture and Policy Analysis/IAMO) drew from the typology of CEEC-10 NUTS-3 and NUTS-2 the conclusion that rural areas are rather heterogeneous, with large differences in development. According to the presentation, in order to create adequate policy measures adapted to the peculiarities of the regions with different demographic and socio-economic data (region-tailored measures), there is a need for detailed cluster analysis carried out on disaggregated regional level – as cluster analysis has proved to be a suitable exploratory method in classifying regions regarding structure and coherence. However there are several methodological problems which arise due to a lack of a strong theoretical base.

Elena Saraceno considered *RD policies and the Second Pillar of the CAP* with the co-existence of the sectoral and the territorial function as two different policy objectives. She underlined that both functions should form the second pillar of

RD. The structural requirements of agriculture and the development of rural areas giving opportunity not only to agriculture but also to several other sectors should be approached at the same time in the interest of the sustainability of the rural areas. Nowadays there is an advantage for those areas which have emphasised the reinforcement of the diversity of rural resources. The exclusive dependence on farming activities is not desirable any more. After highlighting the strengths and weaknesses of the current policy, Saraceno referred to their necessary evolution and political–institutional implementation. The question is which solution is more sufficient: integrating the sectoral function of rural policies with agricultural policies and the territorial function with other regional and cohesion policies or making the two functions work within the same institutional administration.

The session about *Sectoral and Territorial Approaches* contained the presentation on *Design, preliminary results and lessons of program evaluation: evidence from the analysis of six rural development programs in Germany* by Regina Grajewski and Helmut Schrader (Institute of Rural Studies, Federal Agricultural Research Centre, Braunschweig, Germany). A comparison of the evaluation results of the regions, and information on the implementation of the EAGGF co-financed programmes were provided. The presentation went on to help judge the various impacts of the programmes, to recommend new targets or improvement of the implementation of existing measures. The evaluation based on crosscutting questions is on the one hand a summary evaluation – aggregation of result (population, employment, income, market position, environment, equal opportunities), and on the other a formative evaluation – analysis of implementation (internal/external synergy, effectiveness, leverage effects, deadweight effects, EAGGF regulations, partnership). However, the crosscutting evaluation has some problems: the lack of coherence in rural development programmes, difficulties in answering certain questions because of concerns with methodology or content, and the use of indicators which are quantitatively difficult to determine.

In the framework of the session about *CAP-reform*, Martin Petrick (IAMO) derived three principles for institutional policy in his paper on *Governing structural change and externalities in agriculture: toward a normative institutional economics of rural development*. The question was whether the quantitative assessments of policy impacts based on standard welfare theory are suitable for dealing with the latest structural and environmental policy packages. While tracing analytically the RD policy, two core problems were taken into consideration: (1) the problem of delayed structural change in agriculture; and (2) the problem of multifunctionality and the environmental externalities of agricultural production. Following the critique of welfare economic principles, a normative institutional economics of RD was outlined in order to show a conceptual contribution to the evaluation of RD processes and policies. Normative institutional economics (including the prin-

ciples of realisation of gains from cooperation, incentive-compatible self-regulation, and institutionalised competition) is an extension of the welfare economic approach (with the principles of optimal resource allocation, opportunity cost, and coordination by equilibrium prices). The viability of this approach is demonstrated through the rural credit policy. The author concluded: "Instead of influencing market outcomes by more or less unspecified subsidy payments, it is recommended to create and/or strengthen an institutional framework that allows the functioning of financial intermediaries operating in the interest of both borrowers and lenders. This would include the prudential regulation of the banking sector without directly interfering with its intermediation tasks hence a form of both 'governmentally regulated private self-regulation' and institutionalised competition."

One of the most interesting presentations over the course of the sessions about Methodology was the one on *Implementation of Article 16 (habitat) measures under Regulation (EC) 1257/99 in the German federal state of Brandenburg* written by Lutz Laschewski (University of Rostock, Faculty of Agricultural and Environmental Sciences, Department of Agricultural Economics and Process Engineering), Bettina Matzdorf (Centre for Agricultural Landscape and Land Use Research Müncheberg, Institute for Socio-economics) and Christian Schleyer (Humboldt University Berlin, Department of Agricultural Economics and Social Sciences). The authors dealt with the implementation process and regional impacts of the "Habitat" Directive. They showed that there could be a lack of environmental effectiveness of the agri-environmental schemes that are overly influenced by administrative procedures. In the case of Brandenburg (where Article 16 contributed to the decrease in farmers' opposition against further extension of protected areas) the regional administration linked political goals with the given budgetary constraints, and so accepted also potentially restrictive or unspecified regulations. Furthermore it was argued that the statutory environmental rules and the voluntary agri-environmental schemes are complementary.

One of the authors of the session about Farmers' response, Karl M. Ortner (Federal Institute of Agricultural Economics, Vienna) presented a paper on *Marketing of agricultural quality products: a way to improve living conditions in rural areas?* He evaluated the results of measures aimed at the improvement of the marketing of agricultural products in Austria. After analysing the questionnaires (which concerned the number of members participating, the scope of the project if it had not received any assistance, the duration of the results of the investment and its payback period, production, the share of products covered by the projects, the change in quality of products, marketing, prices, labour-input, expenses, and personal experiences) the results were the following: creation of new jobs (and additional annual labour equivalents), additional revenue from changes in prices and

production, positive effects on characteristics of products and services, and increase in prestige/self-esteem. Although one could consider the generation of income as the major objective, the above-mentioned factors prove that it is not sufficient to focus exclusively on that.

In the session about Sustainable and Organic Agriculture, Anna Maria Häring and Stephan Dabber (Institute of Farm Economics, University of Hohenheim, Stuttgart, Germany) demonstrated the *Impact of CAP measures on environmentally friendly farming systems: the case of organic farming*. The authors investigated the relationship between organic farming and measures implemented within the RD regulation, the stimulation of the growth of organic farming by policy support. In the 6 selected countries it was proved that the sustainable development objectives could be achieved through organic farming. According to the authors' recommendations, some aspects should be taken into consideration in connection with the continuation of the policy of organic maintenance payments, the providing of specific investment provisions for organic farmers, the marketing and processing of organic products, the review of the environmental and socio-economic benefits of an increase in organic farming, e.g. in Less Favoured Areas, specific extension services and technical assistance for organic farming, the integration of the agri-environmental and RD legislation and the improvement of administrative procedures.

During the session about Evaluation Methodology and Results, the paper on *Explaining structural policy use by farmers with discrete choice models: an evaluation of structural policies supported by the EAGGF* written by Riccardo Scarpa (Environment Department, University of York, UK), Laura Viganò and Davide Bortolozzo (National Institute for Agricultural Economics (INEA), Italy) examined two models, an explorative one using a large sample of over 9500 farmers investigating the determinants of farmers' investment choices in the year 1999, and another one: the model underlying the policy simulations – being more complex in nature, and exploring the determinants of selection of on-farm investment categories in a smaller sample of farms that have received public co-funding under the framework of EC Regulation 950/1997. The data utilised for the estimation of discrete choice models came from the Farm Accountancy Data Network (FADN) and an evaluation study on the effects of the application of the Regulation (EC) No. 950/1997 in the Italian Central and Northern Regions. The empirical analyses of determinants of on-farm investment decisions and selection showed that low economic performance and marginal farm structure increase the likelihood of investment. The multinomial (conditional logit) analysis uncovered the existence of two different regimes of decision behaviour for public funding decisions under regulation 950/1997. According to the authors these were highlighted by making

use of latent class modeling, and would not have become apparent in a conventional multinomial logit approach.

The session about *Combating Depopulation* made room among others for Gerhard Hovorka (Federal Institute for Less Favoured and Mountainous Areas, Vienna, Austria) presenting the paper on *Evaluation of the compensatory allowances scheme under the EU regulation 1257/99 in Austria and in other EU Member States*. As a high proportion of less favoured areas (LFA) of the Austrian land area is mountain area, mountain farming plays a major role in maintaining high environmental quality by means of subsidies and regional programmes. Under the 2000–2006 Rural Development Program support levels have been improved considerably for LFA farmers, first of all for mountain farmers. The author intended to show the evaluation and the achievements of the new compensatory allowance schemes and the complementary contributions of other RDP measures, such as the agri-environmental programme. Farms were grouped in clusters by using four mountain farm degrees of difficulty, a basis category and an average mountain farm. Furthermore they were evaluated according to three types of less favoured area and NUTS-2 level. As a result it was stated that the compensatory allowances scheme under the EU regulation 1257/1999 has had a positive impact on the continuation of land use, prevented marginalisation in most of the mountain regions and brought a massive increase in the EU co-funded support sum. The support differences reflect the different degrees of difficulty of farming and the contribution to the maintenance and formation of the cultural landscape and settlements much better than the previous compensatory allowance systems did.

*Viktória Vásáry*