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# OECD AGRICULTURAL POLICIES: DOMESTIC AND INTERNATIONAL RESPONSIBILITIES - A SUMMARY<sup>1</sup>

von

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In the framework of the general theme of this annual session of the GEWISOLA, it is important to cover developed countries' policies. However, it is a difficult task to do so briefly, within the time constraints of this address. The "probl matique" of agricultural policies has become increasingly complex, in terms of both objectives and instruments. Furthermore, agricultural policies are more than ever interlinked with other policies, so that the agricultural analysis and debate have a "multidimensional" character. As a consequence, the discussions are loaded with a number of preconceptions, both among various groups of the population and among countries. Whether justified or exaggerated, the sensitivity of the agricultural issue has given this sector a political acuteness which is disproportionate to its economic importance considered in "statistical" terms.

Significant progress has been made in the economic understanding of the impact of agricultural policies, both at the domestic and the international level. Orientations for the reform of these policies have been given by a large number of official and private analysts, and a certain degree of political convergence can be noticed. However, political implementation has been very slow, in particular at the international level, as evidenced by the continuing difficulties in the Uruguay Round. If the momentum for reform apparent over the last few years is lost, the economic and political problems in the agricultural sector could become explosive and create serious problems for the agricultural community itself.

In this context of uncertainty, and with a view to moving away from day-to-day detailed technical discussions on policy reform, I would like to highlight three key messages as an introduction:

1. In the agricultural sector, as in other sectors, domestic and international problems are closely interlinked. It is not possible to analyse trade issues without reference to domestic policies: this was a major conclusion from the OECD report on "National Policies and Agricultural Trade" (1987), which was the basis for the OECD Ministerial agreement on the reform of agricultural policies. In turn, the behaviour of the international market is primarily conditioned by domestic policies: to justify support and protection policies on the grounds that the international market is unstable or not representative, creates a "vicious circle". This phenomenon is better recognised today than was the case ten years ago, as is evidenced by the agreement that the Uruguay Round should deal simultaneously with the three aspects of internal support, import access and export competition. It is interesting to note that this recognition of the inter-dependence of trade policies and domestic poli-

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<sup>1</sup> The present paper is the sole responsibility of the author, and does not necessarily represent the views of the OECD or of its Member countries.

cies applies also to other economic sectors, in particular in the so-called "new fields" of the GATT negotiations; this has had a serious impact on the nature and modalities of present international negotiations, and also raises institutional problems (e.g. the need for a better integration of the GATT with other general economic organisations).

2. Agreement has been reached in most countries and in international organisations (GATT, Punta del Este Declaration and Mid-Term Review; OECD, Communiqués of the Ministerial Council of 1987 and subsequent years) on the need to reform agricultural policies. The positive effects of reform, in particular of the progressive and concerted reduction of support and protection, on international trade and on the overall economy have been well documented (e.g. OECD, Economic Studies, no.13, Winter 1989-1990). However, the fear that such a reform would create insurmountable problems for the agricultural sector itself is probably the major factor which acted as a "brake" to the implementation of reform. Analysts and policymakers should insist more on the positive effects of reform, which would establish agriculture on a more solid economic and social basis, and would allow the sector to better respond to the future needs of our economies and societies. Of course, the adjustment process will create hardships for some, but lack of reform would have far wider negative implications for the whole sector (in fact, the present difficulties are, to a large extent, the consequence of delays in reforming policies which had given the wrong signals to farmers). Furthermore, the agricultural sector has demonstrated in the past its capacity to adjust to new economic conditions; that capacity should not be underestimated for the future. The adjustment process will also involve the sectors upstream and downstream from agriculture; these sectors must also become more efficient and competitive.
3. The adjustment of OECD agricultural policies should also be implemented with a view to maximising positive impacts for non-OECD regions. This topic will be covered by many following speakers in the Seminar, so I will not elaborate on it here. One point is essential: OECD governments should follow coherent policies vis-à-vis non-Member countries, either "South" or "East", in particular among economic, aid and trade policies.

I accept the risk of being short and simple in my presentation because we have today a far better analytical background than before. I pay tribute to the efforts of the academic community, in particular in Germany, for having contributed to an improved analysis of the economic impacts of agricultural policies. However, more analysis is required on the impact of the reform of agricultural policies on farm structure, farm incomes, land values, etc. Our own experience in OECD shows that this direction of work is far more difficult than the analysis of the impacts on production, consumption and trade. In the "structural" field, it is particularly difficult to combine a "case-by-case" approach (which has the advantage of being concrete, but which may not be representative of a more general situation), with a global approach (which is necessary for the definition of the broad lines of national policies). In any case, there is a need for strengthening the dialogue between economists, policymakers, international institutions and, above all, the farming and agro-food community. The present obstacles to the reform process make this dialogue more imperative than ever.

An objective assessment of the present situation indicates clearly that the need for reform of agricultural policies is today greater than ever (see OECD, Agricultural Policies, Markets and Trade. Monitoring and Outlook 1991). There is no reason for complacency. Improvements in the world market situation in 1988/89 were short-

lived and due to short-term factors. We should not be diverted by accidental events or by unjustified reasons (e.g. food aid requirements in the former USSR).

Support to agriculture in OECD increased again in 1990: the PSE for the OECD as a whole reached 44 per cent (below the peak of 1987 -- 50 per cent -- but very much above the average period 1979-86 -- 37 per cent). Total transfers to agriculture from consumers and taxpayers reached an estimated total of US \$ 300 billion for the OECD as a whole -- a record level.

If policies are not changed, the existing problems will get worse:

- surpluses have already started to increase again in most OECD countries; they are forecast, according to our own estimates, to continue to increase in most cases, in particular for grains, in the OECD as a whole;
- budgetary costs will continue to escalate (e.g. within the European Community, the budget for agriculture has doubled in ten years; the 1991 budget is more than a quarter above the 1990 budget; the 1992 budget is forecast to be about 12 per cent above the 1991 budget -- and nevertheless the key market and income problems have not been solved: the statements by Messrs. DELORS and MACSHARRY do not hide this reality.); - trade tensions will further develop and the position of many exporting countries, including developing countries, will further deteriorate;
- in addition, some of the social, or so-called "political" or "non-economic" objectives will nevertheless not have been reached:
  - with present policies, support remains highly concentrated in the European Community: 80 per cent of support goes to 20 per cent of farmers; this has been known for a long time by analysts, but is now recognised by politicians!
  - the share of support effectively reaching farmers is limited, as shown by many recent studies on "transmission losses" in the European Community and the United States;
  - environmental goals are not generally reached;
  - the EC Commission has developed these arguments very forcefully in its proposals for reform -- but they are true also for other European countries, for Japan, and even for North American countries (at least for some highly supported sectors of their agriculture).

In view of these persistent problems, it is necessary to define a broad strategy, which should have a long-term perspective, but the implementation of which should start immediately. Without being exhaustive, I would highlight three elements.

1. **The basic principle of the reform of OECD agricultural policies should remain, and can only be, "greater market orientation".**

The OECD terminology of the 1987 Communiqué was clear and remains valid: "to allow market signals to influence by way of a progressive and concerted reduction of

agricultural support, as well as by all other appropriate means, the orientation of agricultural production".

The GATT terminology of the "Mid-Term Review" also provides a precise orientation for the Uruguay Round negotiations: "[The long-term objective is] to establish a fair and market-oriented agricultural trading system ... to provide for substantial progressive reduction in agricultural support and protection, sustained over an agreed period of time, resulting in correcting and preventing restrictions and distortions in world agricultural markets".

These texts are important, not simply because they emanate from international organisations but, more fundamentally, because they express the recognition by all governments that support to agriculture, more precisely support linked to output, is the main cause of the market and economic distortions described above. This represents a significant step forward compared with the political situation ten years ago. However, this does not mean that all forms of support have to be reduced. There are solid economic, social and political reasons for a new "policy mix", or a "re-instrumentation" of agricultural policies.

## **2. The role of direct income support**

Without entering here into a discussion of the GATT Green Box, or Amber Box, I will make a few general remarks:

- there are very few forms of support which have no effect at all on production, but this is not a convincing argument against direct income support in general;
- direct income support is not a panacea;
- it is necessary to establish a typology of the various forms of direct support, classified according to their objectives, i.e.
  - 1) income stabilisation;
  - 2) minimum income support;
  - 3) structural adjustment;
  - 4) provision of public goods.

The last category is certainly the most interesting one, but also the most difficult to define and to implement. The theory of public goods has still to make progress. However, one must recognise that some of the presentations which modern society expects from agriculture cannot (yet) find a price on the market. These services have to be paid for. So far, the negative impacts of agriculture on the environment have been rather well quantified. It would be useful to attempt to quantify in a more reliable way the positive impacts of agriculture. "Paying for services" would give a positive connotation to direct payments, hence overcoming some of the objections of the farming community.

In any case, all types of direct income support would have to comply with some basic criteria, to be adjusted and weighted for the various cases mentioned above:

- transparency and accountability;
- administrative efficiency;
- not commodity-specific, in principle;

- clear definition of eligibility;
- incentives to adjustment in a dynamic perspective;
- avoid freezing existing structures, and avoid capitalisation of support.

### **3. Environment and rural development**

"Rural development", "politique de l'espace rural", "Politik für den ländlichen Raum", "Ökosoziale Landwirtschaft", "sustainable agriculture": all these concepts are fashionable today. They reflect a new approach to agriculture, and a new order of priorities among the objectives of agricultural policies. This has to be welcome. But we should draw logical conclusions in terms of policies: a new balance among objectives requires a new balance among policy instruments. In other words, this new trend is an additional strong argument for less price support (which has not adequately reached regional and environmental objectives), and for more targeted types of support.

There is no rural development without agriculture, but the type of agriculture may need to change, and may require less resources than before, or at least not the same sort of resources. For example, "sustainable agriculture" does not mean a return to virgin soil (which would be in contradiction with the very concept of agriculture), but it may be defined as a "high precision agriculture", which requires advanced technology, and the corresponding research and training. Furthermore, this emphasis on new aspects of agriculture must also be seen in an international perspective: trade and environment is the "negotiating topic for tomorrow" and, in this context, food and agriculture will be among the sectors most concerned.

As a conclusion, I will simply quote a statement often made by the President of the Farmers' Union of New Zealand -- the only country which has significantly reformed its agricultural policy -- "there is life after subsidies". Indeed, the reform of agricultural policies is the condition for ensuring a viable future for our agricultural sectors and, more importantly, for our agricultural communities.