

Summary

Green mercantilism¹ ?

European progressives and the global food crisis

Niek Koning

Centre for Sustainable Development & Food Security, Wageningen University

For the original article see <http://aardeboerconsument.nl/artikelen/europees-landbouwbeleid-glb>, feb. 2012 (8 p.)

Introduction

In 2008 and 2011, world food markets were hit by sudden price hikes. Food riots broke out in many poor countries, and the price rises contributed to an increase in hunger. From less than 800 million in the mid-1990s, the number of undernourished soared to over 1000 million in 2009 (FAOSTAT).

Many progressives reacted like people have always reacted to food crises: they blamed speculation. Experts disagreed. It is plausible that increased speculation has exacerbated the short-term instability of food prices, and to redress this, new disciplines should push back untransparent 'over the counter' trade and raise thresholds for speculators who have not real interest in physical markets.

Nevertheless, it would be a mistake to focus only on speculation. Speculation is an amplifier rather than a prime driver of fluctuations in food prices. Without the existence of underlying changes, it could never have had this effect. **A major underlying cause of the recent food price spikes was the abandoning of price stabilization and public buffer stocks. Europe's progressives** (greens, social democrats, progressive liberals) **are also to blame for this.** While hoping for a redistribution of farm income support and more subsidies for local alternatives, they have supported a mercantilist project that replaced traditional price stabilization with 'decoupled payments'² to consolidate agro-industrial export positions. Rather than just lashing out against speculators, Europe's progressives would do better to consider their own responsibility for the price spikes.

Then Koning outlines the evolution of agro-industrial mercantilism; how progressives became enmeshed in it; the effects on global food security; and what policies would be more deserving of our support now that a new reform of European farm policy is in the making. A summary:

Around WWII, economists like Keynes and key players in the American New Deal government realized that low and unstable farm prices hindered a normal development in agriculture. Stabilizing government intervention was needed, but beggar-thy-neighbour policies were to be avoided. The *General Agreement on Tariffs of Trade* (GATT) of 1947 **therefore allowed countries to protect their farmers, but only if they controlled their supply. Agro-industrial interests were adamantly opposed to the latter.** They enforced open-ended protection leading to rampant dumping of surpluses on world markets. It was only when the ensuing government costs got out of hand that *some* controls (land idling (= braaklegging) in the US, milk quotas in the EU) were belatedly introduced. However, agro-industrial lobbies kept pressuring for their removal.

In the early 1980s, competitive dumping caused a 'trade war' between the EU and the US. This was fought out in the Uruguay Round. A six-year stalemate was broken by a bilateral understanding between the two powers. In 1994, this was enshrined as the *WTO Agreement on Agriculture*. It obliged countries to reduce agricultural price supports and subsidised exports by certain percentages. This was sold as a big step towards the liberalization of agricultural trade, but the base years for calculating the reductions were chosen carefully so as to minimize the need for real adjustments in the EU and the US. Moreover, **exemptions were made for direct payments to farmers – a rich man's instrument of protection that only countries with well-filled treasuries could use.**

This was consolidated in various EU reforms of the agricultural policy, the first one starting in the final phase of the Uruguay Round.

Grain price supports and oilseed subsidies were lowered, and farmers were compensated through 'direct' (hectare) payments. Larger growers had to set aside (braakleggen) part of their land, again in return for a compensation. The WTO agreement was carefully designed to legitimize the payments that the EU intended to use, whereby the EU killed several birds with one stone..... It wasn't long before the two powers began to make fuller use of the loopholes they had introduced in the WTO agreement. In 1996, the US adopted a *Freedom to Farm Act* that used 'decoupled' payments to liquidate the land idling programme (*braaklegging*) as agribusiness lobbies had long demanded.

¹ Wikipedia: **Mercantilism** is the economic doctrine in which government control of foreign *trade* is of paramount importance. [Jean-Baptiste Colbert](#)'s work in seventeenth century France exemplified classical mercantilism, which was later criticised by the English and Germans.... The new mercantilism of the 20th century has different goals and focuses on more rapid economic growth based on advanced technology. It promotes such policies as state taxing, subsidizing, spending,and, and protection through the formation of supranational trading blocs.

² Subsidies used to be linked to certain crops. After 2000, to dodge WTO regulations, they became personal, 'direct' subsidies (also called 'income support' or 'single farm payments'), based on what the farmer had received in 2000.

The EU could not simply replicate this example. Its political landscape was inhabited **by too many progressives who were not easily persuaded by mercantilist arguments** and had difficulty with unconditional payments to farmers. Therefore agricultural commissioner Fischler proceeded in a more roundabout way. In 1996, he asked an expert group of agricultural economists to advise on the future of Europe's farm policy. In its 'Buckwell report', this group asserted that productivity increases would boost Europe's farm output and The EU would face a difficult choice: either reduce its productivity, leaving the expanding markets to competitors, or decrease its prices to world market levels and support its farmers through decoupled payments, which the WTO allowed without supply controls. But European citizens would not easily accept such payments on a permanent basis. Therefore, they should be justified as compensation for 'some legitimate public good provision'. The most obvious form of this, the experts found, would be 'in the form of **the rural environment and cultural landscape**'.

Commissioner Fischler convened a conference of environmentalists and rural sociologists to discuss the need for a broad 'rural development' policy. According to Winter & Gaskell (1998), it was a 'cleverly-staged managed event' designed to create support for the policy change that Fischler had in mind. The 'Cork Declaration' that came out of it was highly publicized.

Now that the political groundwork had been done, the income support was empathically presented as an instrument for greening the Union's farm policy. Only farmers who met environmental criteria would receive payments (*cross-compliance*), and part of the budget for farm income support would be shifted to rural development (*modulation*). In his public statements, Fischler shrouded the relation between decoupled payments and export expansion in vague references to the need to 'increase competitiveness internally and externally' and to use the 'new opportunities' that globalization provided.

The strategy proved successful. Most progressives supported the Fischler reforms. **Especially the German Greens proved a vital ally.** However, soon after the reform, the funds for rural development were cut disproportionately. Also, the greening of the single farm payments was only weakly implemented. The payments hardly led to new environmental public goods. Farmers were mainly asked to comply with mandatory minimum norms that already existed. In 2008, **the European Court of Auditors deemed the whole cross-compliance policy to be a sham.**

Why did Europe's progressives go along?

Why did Europe's progressives endorse these reforms? One reason was naivety. Many were not aware of the real power relations and the ulterior motive behind the reforms.

Then there were more specific reasons. Ignoring the fact that overproduction and low prices had originated in free market forces, many environmentalists believed that **local food alternatives and low-chemical farms** would restore a normal balance and make government support unnecessary. When the German Greens gained control over the ministry of agriculture, they abandoned Germany's traditional opposition to cuts on price support and got closer to the northwest European countries that demanded accelerated liberalization.

The environmentalist belief in the economic potential of local food alternatives proved strongly overrated; it created a precarious exclusiveness that is easily eroded. These **local preoccupations rendered the Greens blind to the international dimensions and the mercantilist thrust behind Fischler's proposals.**

Many of the **social democrats** had always rejected price support as an undue favouring of a landed elite. Some social democrats with a farm background – including Mansholt – had been more open to agrarian realities, but the dwindling of the farm population had weakened such voices. What remained was the old social-democratic focus on intra-sectoral reallocation; the new labourites of northwest Europe and Germany wanted to cut down farm income supports across the board and use the budget resources to stimulate a rural development that was broader than farming.

Finally, there were the **progressive liberals**. Many development activists belonged to this category. Quite a lot had expanded their criticism on the dumping of agricultural surpluses into a wholesale rejection of government support for agriculture. They failed to see how supportive price policies had helped to get agricultural development and economic growth in Asia going, and how the lack of such policies had pushed Africa in a vicious spiral of poverty. Their neoliberal assumptions helped policy makers to represent the EU reforms as a process that would ultimately benefit poor countries.

Long-term risks: (see original article for considerations)

A better policy?

Is a better policy possible? Unquestionably. Governments can create **a global system of public buffer stocks**. They can use this to keep international agricultural prices within a range that enables adequate investment. They can agree on **multilateral supply controls** to prevent the stocks from overflowing, and **on restrictions on biofuel** to prevent them from running out. Governments of rich countries can **co-finance employment projects in developing countries** that compensate poor consumers for the short-term impact of higher food prices and that build infrastructures for agricultural growth. Meanwhile, environmental objectives should be pursued through **mandatory minimum norms** rather than cross-compliance. Direct payments should be used to pay farmers for real public goods only. **By devoting themselves to such a programme in the new reform, Europe's progressives could redress the errors they made by supporting the Fischler reforms.**

At the moment this paper was written, the European Commission has not yet tabled its proposals for the common agricultural policy after 2013. However, the signs are that agricultural commissioner Ciolos is heading for a new phase of the Fischler reforms.

What will Europe's progressives do this time?