

Green mercantilism?

European progressives and the global food crisis

Niek Koning

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. Financial traders fleeing from depressed stock markets into commodity futures were accused of creating speculative bubbles that spilled over to physical food markets. This indeed played a role. Hedging operations in futures markets are important to reduce price risks for farmers and processors. Since 2003, however, these markets have been flooded by a tidal wave of new speculative capital. Although World Bank and IFPRI experts put the blame on this for a large part of the 2008 price spike, OECD experts have downplayed this. The available evidence allows no final verdict. However, it is plausible that increased speculation has exacerbated the short-term instability of food prices (FAO 2010; Tollens 2011). To redress this, new disciplines should push back untransparent »over the counter« trade and raise thresholds for speculators with no 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. 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 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. Below I outline 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.

Agro-industrial mercantilism

Prior to 1800, scarcity was never far off. Population growth pushed up food prices. This stimulated agricultural growth, but because technical change experienced difficulty in keeping pace with demand, it ended time and again in subsistence crisis.

From the 19th century, the fossil fuel revolution broke this Malthusian cycling. Motorized transport, new fertilizers, and substitutes for farm-produced materials and energy sources strongly expanded the limits for food production. At the global level, scarcity gave way to abundance, entailing new problems of overproduction and boom-bust cycles. Because the demand for food showed little elasticity, and small farmers as small producers could not control their collective supply, agriculture was more sensitive to this than other sectors.

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 (Henningson 1981; Markwell 2006). 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 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 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.

In the final phase of the Uruguay Round, the EU initiated a reform of its farm policy. Grain price supports and oilseed subsidies were lowered, and farmers were compensated through hectare payments. Larger growers had to set aside 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. By substituting hectare payments for price support, it dodged the restriction of grain exports to which the agreement would otherwise have obliged it. By moving its grain prices closer to world-market levels, it made its own feed grains more competitive compared to imported non-grain feed ingredients. Finally, the land set-aside measure placated the Americans while still being a softer restriction than the quotas that Europe had introduced in its milk sector. This was a victory for the French grain trade, which was adamantly against strict production controls (Paarlberg 1997).

The Fischler reforms

It wasn't long before the two powers began to make fuller use of the loopholes they had introduced in the WTO agreement. The agreement allowed payments on farm inputs or outputs if coupled to »production-limiting programs«. However, agro-in-

dustrialists still saw these latter as an obstacle to growth. It raised the significance of »decoupled« payments (i.e. payments unrelated to a farmer's current production), which the agreement allowed without restrictions. The Republicans in the US were the first to exploit this possibility. In 1996, they adopted a *Freedom to Farm Act* that replaced output payments with »decoupled« payments and used this to liquidate the land idling programme as agribusiness lobbies had long demanded.

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 supervised a decision to reduce the mandatory set-aside from 15 to 10 percent. Meanwhile, 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 faster than its internal demand. Because of the WTO constraints on export subsidization, the experts added, this would confront the EU with a difficult choice. Either the EU would have to further restrict its production, leaving the expanding markets in East Asia to competitors and depriving the European food industry from an opportunity for growth, or the Union should decrease its prices to world-market levels and support its farmers through decoupled payments, which the WTO allowed without supply controls. However, the report emphasized, 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« (Buckwell et al. 1997).

In the meantime, Fischler had 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, Fischler could move ahead. In line with the Buckwell report, the reforms of 1999 and 2003 further replaced price supports with direct payments, while the 2003 reform transformed hectare and animal payments into decoupled *single farm payments*. The latter were emphatically 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 constantly emphasized the »multifunctionality« of European agriculture and the »non-trade concerns« of European consumers about the environment and the viability of rural societies. He 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 (Fischler 2000; also cf. Erjavec et al. 2009).

The strategy proved successful. Most progressives supported the Fischler reforms. Especially the German Greens proved a vital ally. Green agricultural minister Renate Künast was intimately involved in Fischler's manoeuvring. She even seems to have received tactical pre-information (Syrrakos 2008). Nevertheless, from the green

point of view, the outcomes of the reforms were disappointing. The accommodation of non-trade concerns was more rhetoric than substance. A proposed ceiling on payments to larger farms was discarded. Soon after the reform, the funds for rural development were cut disproportionately (Swinnen 2008). Also, the greening of the single farm payments was only weakly implemented. The payments hardly led to new environmental public goods (Jongeneel et al. 2008). 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 (European Court of Auditors 2008).

From the agro-industrial point of view, however, the Fischler reforms did precisely what they were intended to do. They paved the way for the full elimination of supply controls. Under Fischler's successor Fischer-Boel, this opportunity was capitalized. In 2007, the land set-aside was abandoned and in 2008, a phase-out of the milk quotas was started.

»Decoupling« was presented as a liberalizing measure. According to the WTO agreement, decoupled payments would have »no, or at most minimal, trade-distorting effects or effects on production«. In reality, these payments encouraged production growth in various ways, albeit less than traditional price support. More importantly, they allowed farmers to sustain their production while price supports were reduced (Chau & de Gorter 2000; Ritchie et al. 2003). Through these payments, American and European agro-industries could consolidate the market positions they had acquired through decades of offensive protection. They could even corroborate these positions by eliminating the few production controls that existed. Rather than a liberalizing reform, therefore, decoupling was a *pseudo*-liberalization that enabled countries with deep pockets to whitewash their violation of the original GATT and to expand dumping in a disguised way.

Increased price volatility followed from this mercantilist ploy as a piece of collateral damage. The ending of price stabilization widened the room for the leapfrogging of prices and investment that generated cobweb cycles in agricultural markets (Bousard et al. 2006). It also involved the emptying of public buffer stocks by which the EU (and until the 1980s, the US) had defended price floors in their internal markets. Although these stocks had been used for dumping surpluses on world markets, they still helped to moderate global price fluctuations. Because administrators tended to sell these stocks when world market prices were high while hesitating to do so when prices were low. Without these buffer stocks, droughts, the biofuel boom and the Asian growth spurt could no longer be buffered – with the recent food price spikes as a result.

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. They were persuaded by Fischler's rhetoric about non-trade concerns, and taken by surprise when the reforms were used to liquidate the land set-aside and the milk quotas. This was especially clear with the German Greens. When the European Commission moved to kill the quotas in 2008, their Euro-parliamentarians rallied round the dairy farmers of the European Milk Board who resisted this decision. By

then, however, it was too late to stop the dynamic that the German Greens themselves had helped to create.

Then there were more specific reasons. Many environmentalists saw agricultural surpluses and the destruction of ecosystems as a direct consequence of government intervention. Ignoring that overproduction and low prices had originated in free market forces, they believed that local food alternatives and low-chemical farms would restore a normal balance and make government support unnecessary. Therefore, many were not strongly opposed to market deregulation. 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 (Perraud 2004; Syrokos 2008).

Meanwhile, the environmentalist belief in the economic potential of local food alternatives proved strongly overrated. In fact, such initiatives could only enable a temporary premium for some farmers by creating a precarious exclusiveness that was easily eroded (cf. Guthman 2007). Many Greens closed their eyes to this and blamed the difficulty of mainstreaming these initiatives entirely on the political favouring of »industrial farms«. They hoped that the Fischler reforms would redress this and channel more public resources to organic agriculture and artisanal farmers. For this reason, Künast traded her final vote for the 2003 reform for a »regional model« that allowed some redistribution of payments to low-chemical farms (Swinnen 2008). These local preoccupations also caused the Greens to be overly focused on the domestic implications of the Fischler reforms. It rendered them blind to the international dimensions and the mercantilist thrust behind Fischler's proposals.

Next to the Greens, there were the social democrats. Many of them had always rejected price support as an undue favouring of a landed elite. However revisionist they had become in other respects, on this point they had kept to Marxist orthodoxy, ignoring the regime breach in the evolution of agriculture that had occurred after Marx' writings. Some social democrats with a farm background – including Mansholt – had been more open to agrarian realities. They believed that government support of agriculture was needed to allow the modernization of family farms in the interest of society. But the dwindling of the farm population had weakened such voices. What remained was the old social-democratic focus on intra-sectoral reallocation. This made social democrats open to proposals to »liberalize« agricultural markets and replace price support with payments that would allegedly allow such a redistribution. In countries like France, they saw decoupled payments as an opportunity for redistributing support to smaller farmers and less favoured areas, but they also condoned using these payments for dodging WTO restrictions on export subsidization. Meanwhile 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 (cf. Delorme 2004; Lowe et al. 2002).

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 (e.g. Watkins & Fowler 2002). They failed to see how supportive price policies had helped

to get agricultural development and economic growth in Asia going. By the same token, they ignored how the lack of such policies had pushed Africa in a vicious spiral of poverty and soil degradation (cf. Koning & Smaling 2005). Although the analyses of these activists exposed the mercantilist flaws of Western farm policy reforms, their neoliberal assumptions still helped policy makers to represent these reforms as a step in a process that would ultimately benefit poor countries.

Long-term risks

In the short term, green mercantilism has exacerbated the volatility of food prices, contributing to the price spikes of 2008 and 2011. In the longer term, green mercantilism poses a much more serious risk. Between now and mid-century, the world population will increase from 7 to around 9 billion. Also, the consumption of meat in middle-income countries will strongly increase. As a consequence, the global phytomass demand for food and feed will rise from 7 to about 12 billion tons of grain equivalents. This is added to by a growing demand for bioenergy and biomaterials. Now that the more easily exploitable reserves of fossil fuels are dwindling, rising energy prices will reverse the substitution of fossil hydrocarbons for farm-based biomass that started in the 19th century. A simple calculation shows that the effects will be enormous. The global consumption of energy expected by mid-century is 980 exajoules (Schiffer 2008), which equals the heat value of 55 billion tons of grain equivalents. Assuming that 10 percent would be produced from phytomass, and optimistically assuming an energy return of energy input of 4, this requires an input of 8 billion tons of grain equivalents, bringing the total demand for food, feed and energy to 20 billion tons. This still forces many poor to live on a meagre diet. If all people were to eat European-style, the figure would rise to 26 billion tons.

All this conforms to a business-as-usual scenario. The demand growth may be limited by moderating the consumption of meat (especially feedlot beef) and energy (better isolation, less fuel-guzzling transport, etc.). Caution is needed in estimating the potential for such moderation, for if we are wrong and scarcity will raise prices, it is not us but the world's poor that will suffer. Nevertheless, let us assume that 20 billion tons of grain equivalents will suffice to give every world citizen a decent living.

How can we meet this enormous demand? Global reserves of land and water are progressively being exhausted. The breeding of higher-yielding varieties is approaching limits that are set by photosynthetic efficiency (Yin & Struik 2008). Technically speaking, global farm output could be raised to a maximum of around 40 billion tons – twice the amount needed (Koning et al. 2008). This sounds reassuring, but it isn't. It would require, for example, for even the alpine meadows and Mongolian steppes to be heavily fertilized. It would also require a huge piping system – not to irrigate dry areas where it pays to do so, but to spread all available water thinly over enormous stretches of humid land where a few drops extra give a bit more output. This can only be realized if food prices were to strongly increase – the very thing that we want to avoid. Many agronomists would be glad to see global production double to somewhere around 14 billion grain equivalents without strong increases in prices. Raising it to 20 billion will be an enormous challenge – the more so because rising energy prices and the depletion of phosphate will make fertilizer and other inputs more expensive.

Organic agriculture will not help us out. An extensive analysis of 400 publications where organic and conventional agriculture were compared shows organic yields to be on average 22 percent lower than conventional yields. With rising yields, the gap becomes higher. When the need for green manuring in organic agriculture is taken into account, it becomes higher still (De Ponti et al., in review). We have to recognize that our current kind of organic agriculture will not be able to feed the world in the future.

Many progressives have asserted that it is not the global supply of food that will be problematic, but only the distribution of incomes. This appears to be a gross misrepresentation of the situation that mankind is facing. Guzzling the world's fossil fuels has allowed mankind to increase tenfold, from 0.9 billion in 1800 to 9 billion in 2050. This latter will prove an enormous burden once the stocks have been depleted. A soft landing – if at all possible – will require timely investment in new energy techniques and capacities for biomass production. Green mercantilism discourages such investment in several ways. Compared to traditional price support, decoupled payments reduce the incentive effect of farm income supports on technical improvement (Zhu & Oude Lansink 2008). They involve much higher government costs, which makes these payments prone to budget cuts that further reduce the incentives. Finally, the ensuing price volatility increases the price risk, which will also be a drag on investment.

Decoupled payments were introduced out of a mercantilist desire to strengthen exports by maximally exploiting all existing production capacities. Paradoxically, they may slow the growth of these capacities in the long term. The ensuing rises in food prices may prompt belated investment. Because of the long gestation time of investment in agricultural development, it will take many years before this pays off. In the meantime, international food prices may skyrocket. This would affect rich countries only slightly, since within their borders, suitable land is relatively abundant. The European Union, for example, has one-third more suitable land per inhabitant than the world at large. Moreover, our buying power allows us to import food no matter its cost. Therefore, we Europeans will not pay the price for underestimating the challenge that is facing mankind. Any blows will fall in low-income countries, where food may become unaffordable for the poor, causing famine, violent conflict, and desperate migration.

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.

The current food price spikes are a warning signal. Rather than putting all blame on speculators, we should use them to reconsider the relation between farm policy and global food security. 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?

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