

Institute of Agricultural and Food Economics –
National Research Institute, Warsaw, Poland



2015 - 2019

FINANCIAL DIMENSION OF THE CAP IN THE LIGHT OF THE PUBLIC CHOICE THEORY

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**INTERNATIONAL CONFERENCE
“THE CAP AND NATIONAL PRIORITIES
WITHIN THE EU BUDGET AFTER 2020”**

Lidzbark Warmiński, 11-13 June, 2018



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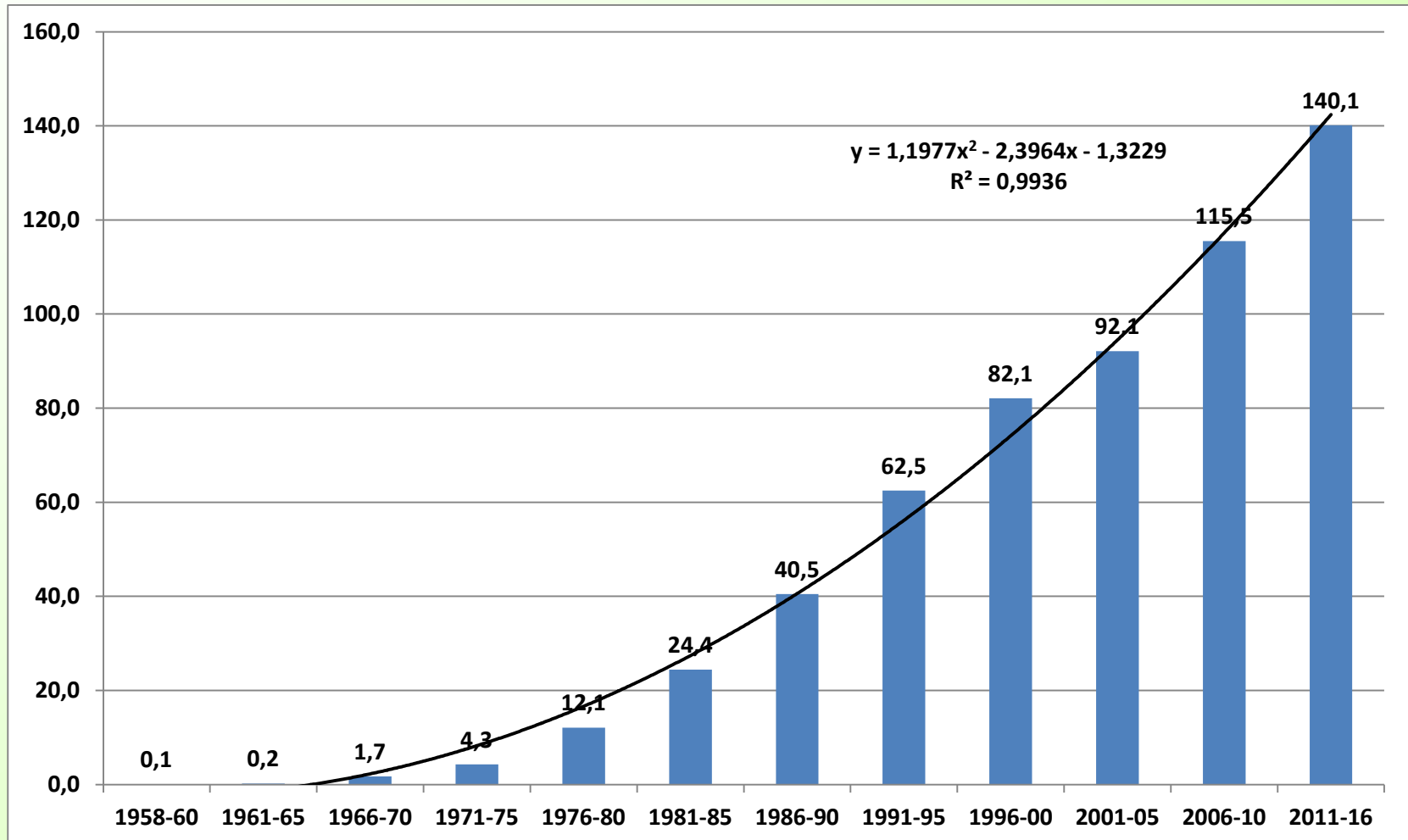
Objectives

- Examine evolution of the EU budget with a special focus on agriculture and rural areas
- Identify over time changes in selected with regard to agriculture socio-economic variables and discuss long run tendencies
- Discuss briefly the public choice theory fundamentals and their explanatory potential
- Analyze allocation of the EU budget in the context of the public theory assumptions
- Highlight some prospects of the EU budget developments regarding the future of CAP



2015 - 2019

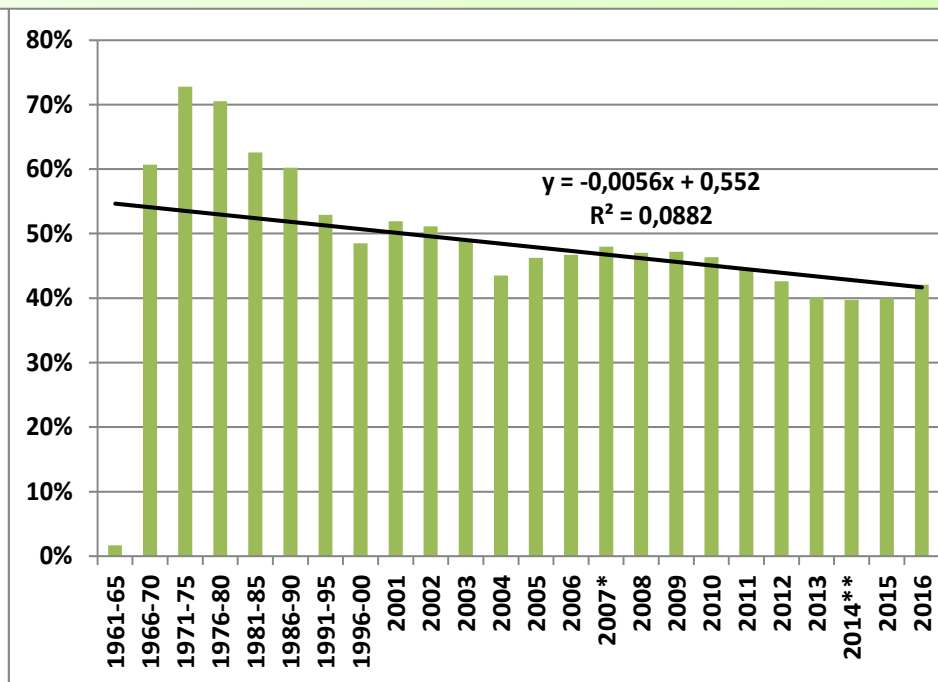
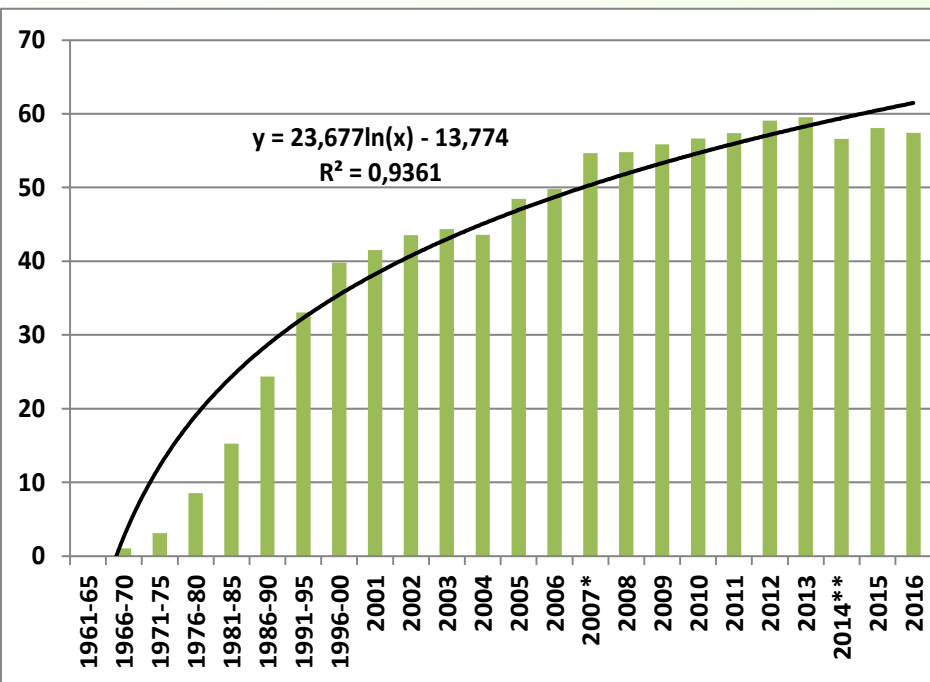
Evolution the EU Budget (billion euros)





2015 - 2019

Changes in the Level and Share (%) of Expenditures on Agriculture in the Total EU Budget in 1961-2016



Item	1961-65	2016
Level (bill. euros)	0.0034	57.41
Share (%)	1.7%	42.1%

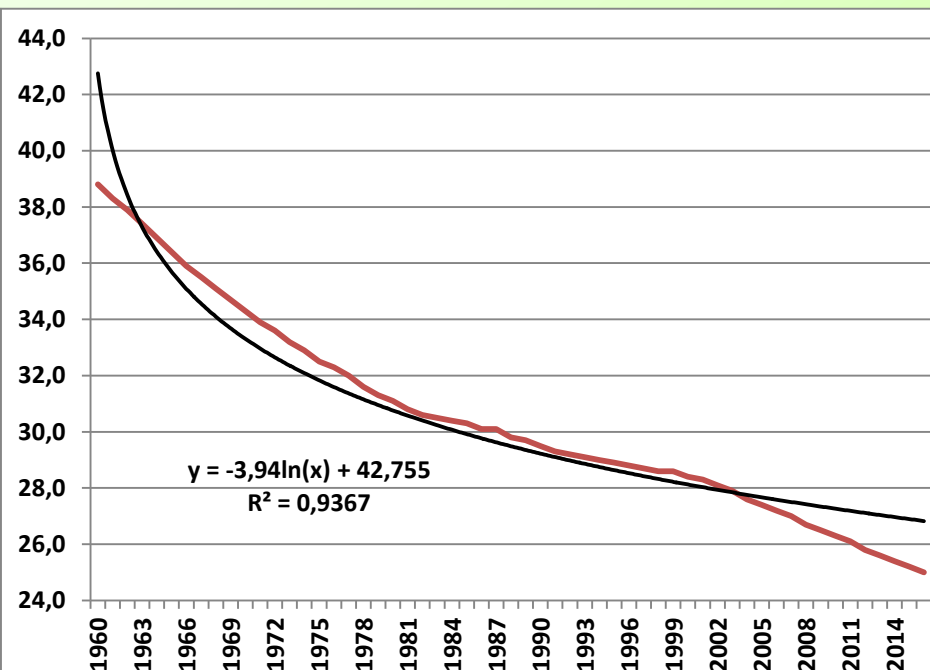
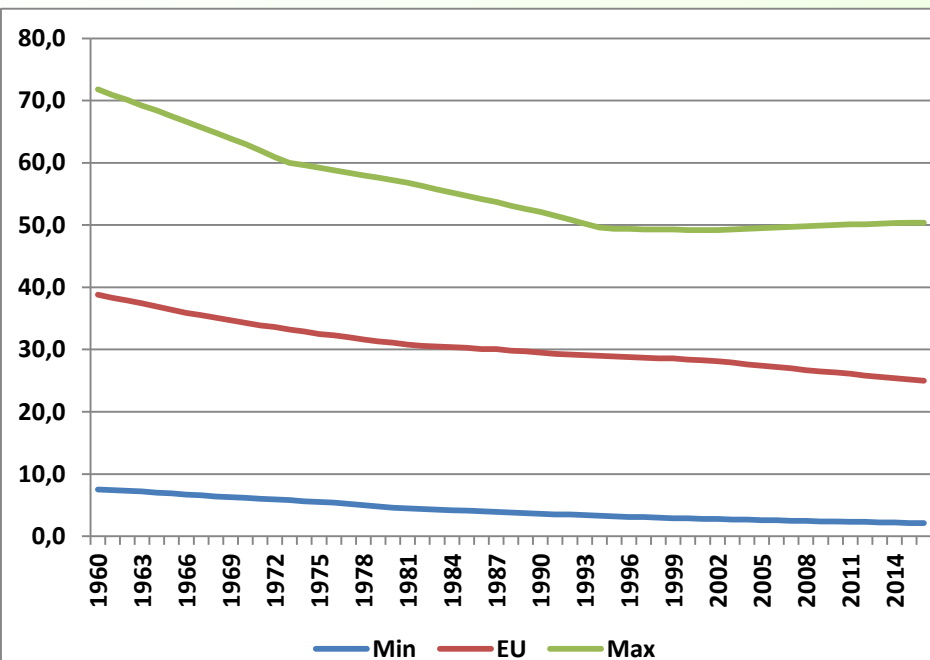
* - agriculture was included in a broader category called "PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES"

** - agriculture was included in a broader category called "SUSTAINABLE GROWTH: NATURAL RESOURCES"



2015 - 2019

Changes in the Share (%) of Rural Population in the Total Population in the EU Countries in 1961-2016

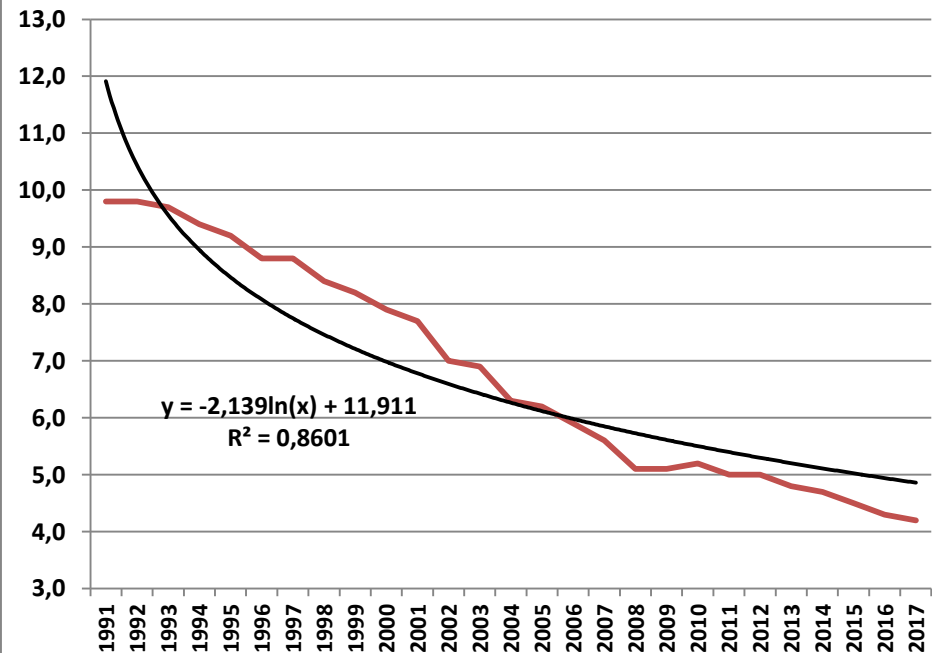
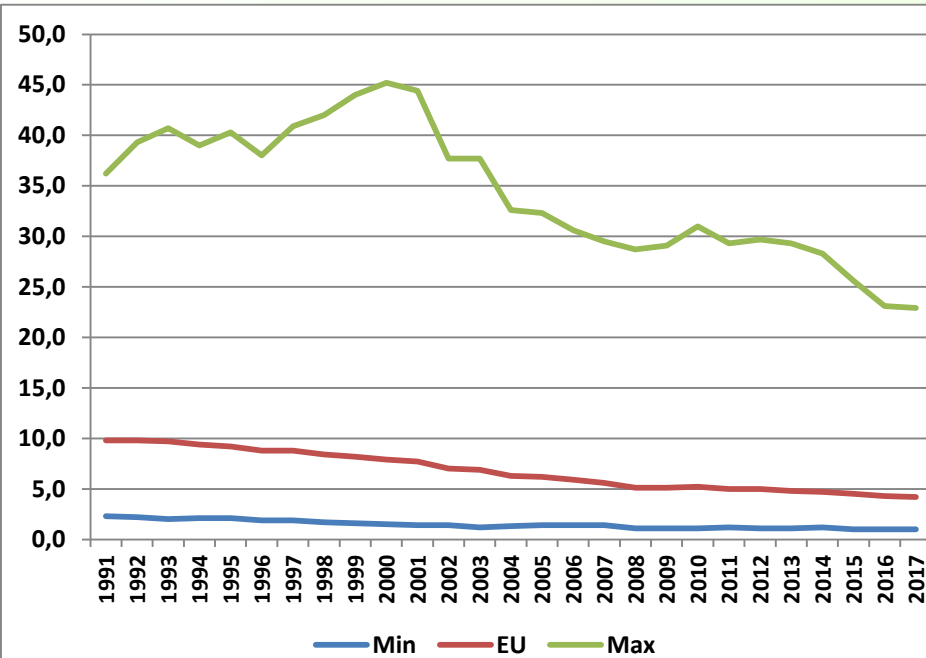


Share of RP	1960	2016
Min	7.5	2.1
EU	33.8	25.0
Max	71.8	50.4



2015 - 2019

Changes in the Share (%) of Employed in Agriculture in the EU Economies in 1991-2017

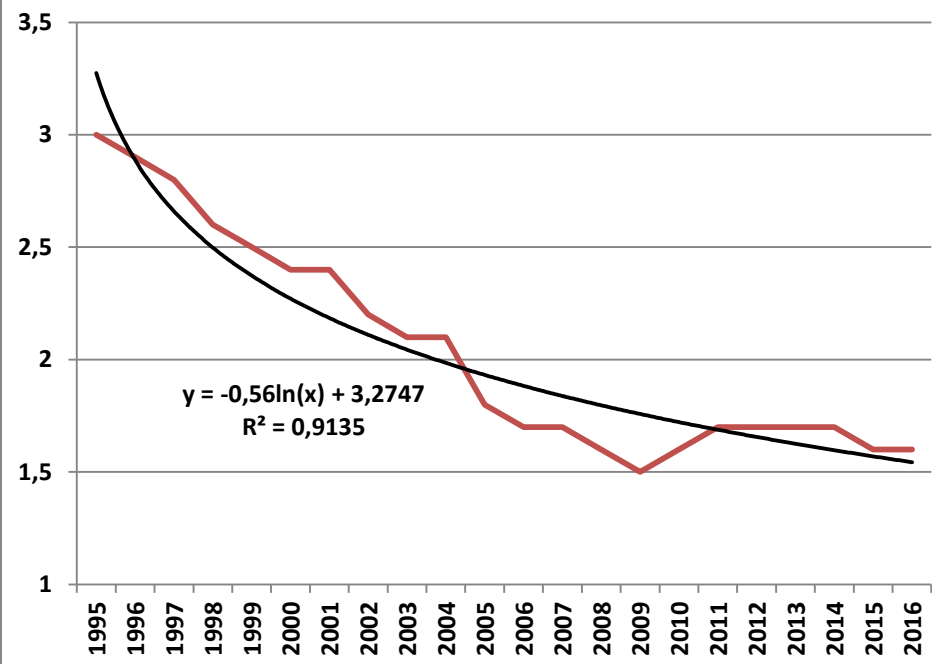
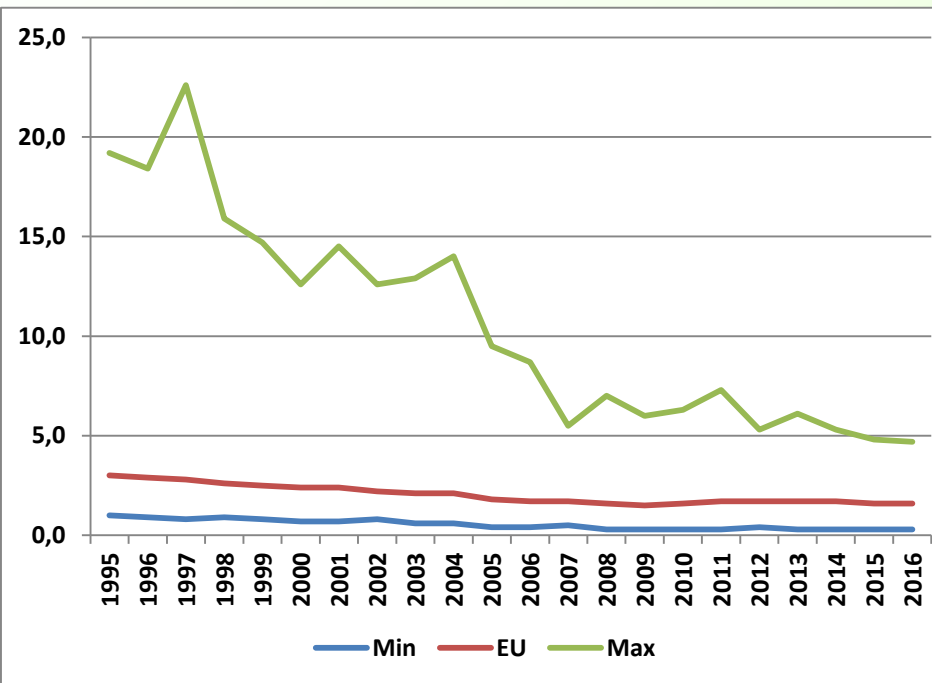


Share of AGE	1991	2017
Min	2.3	1.0
EU	9.8	4.2
Max	36.2	22.9



2015 - 2019

Changes in the Share (%) of AVA in the GDP of the EU Economies in 1995-2016

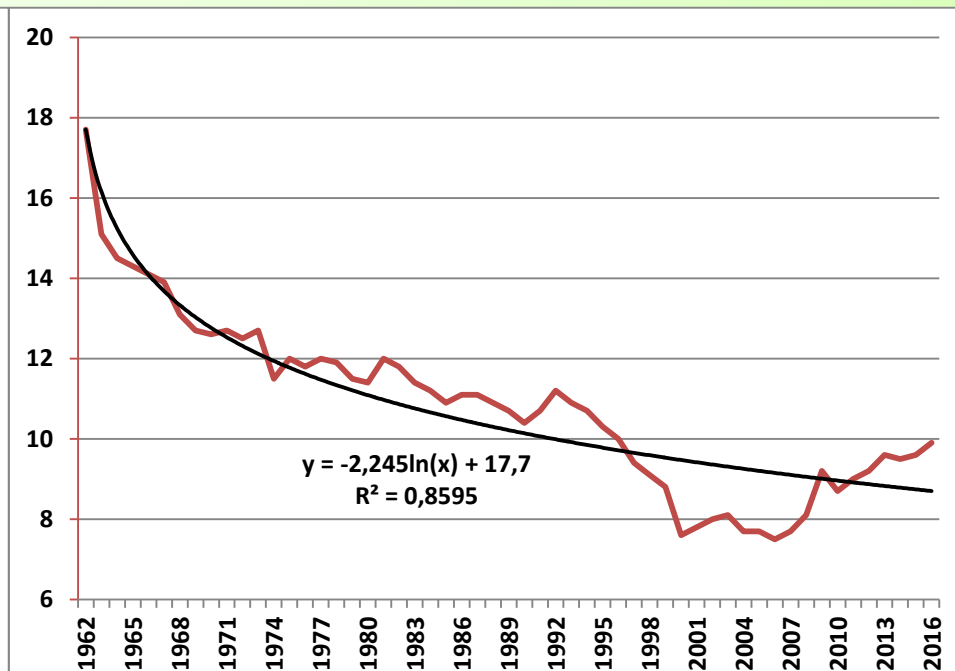
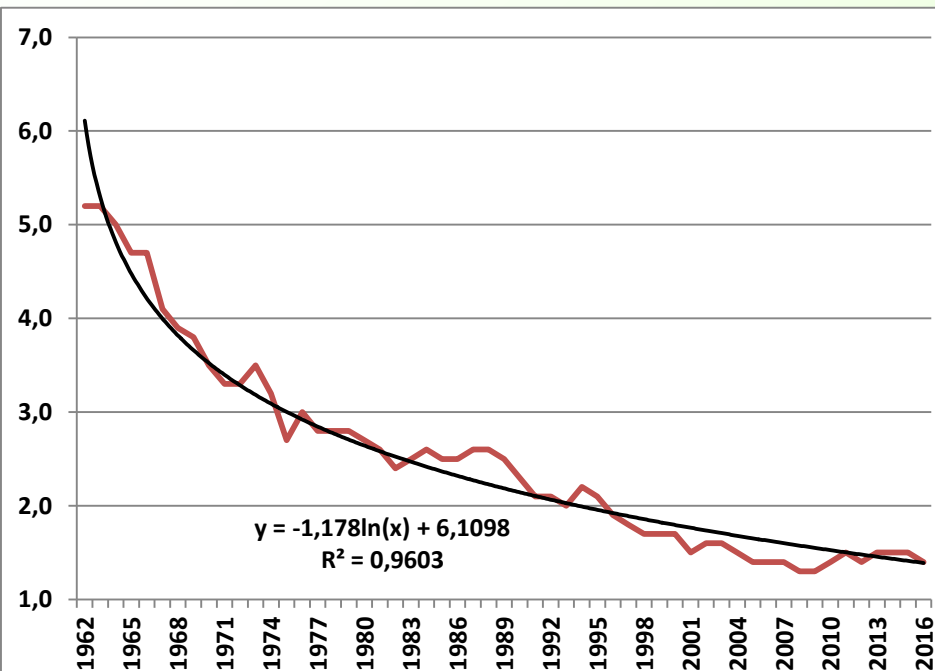


Share of AVA	1995	2016
Min	1.0	0.3
EU	3.0	1.6
Max	19.2	4.7



2015 - 2019

Changes in the Shares (%) of the Ag Raw Materials and Food Exports in the Total Merchandise Exports of the EU Economies in 1962-2016



Share (%)	1962	2016
The EU agricultural raw materials exports	5.2	1.4
The EU food exports	17.7	9.9



2015 - 2019

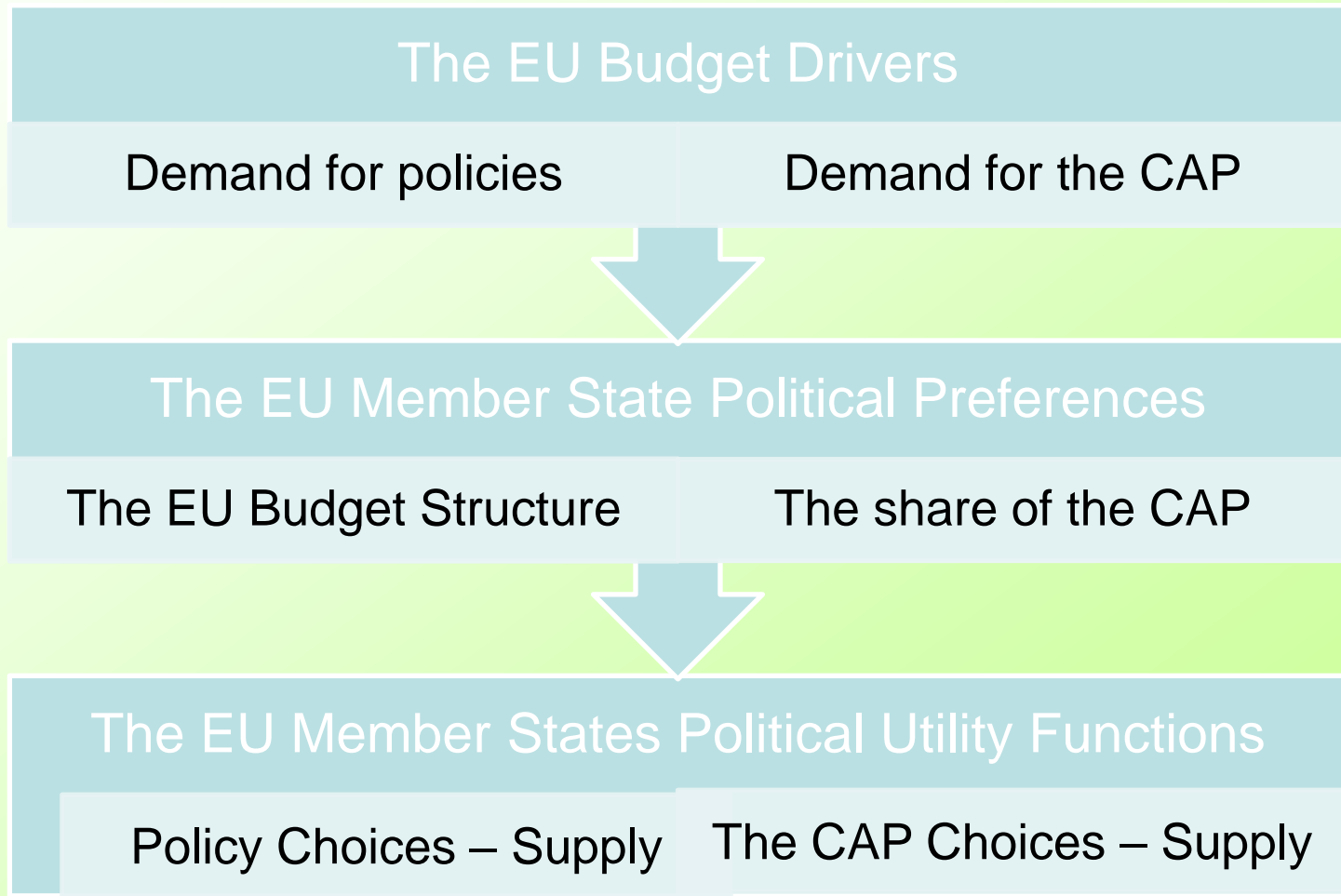
Public Choice Theory Fundamentals and Key Concepts

Public choice or public choice theory is "the use of economic tools to deal with traditional problems of political science":

1. Decision-making processes and the state
2. "Expressive interests" and democratic irrationality
3. Special interests
4. Bureaucracy
5. Optimization rule
6. Social optimum concept
7. System equilibrium concept



Our View on the Use of the Public Choice Theory to explain the EU Budget Evolution Process





2015 - 2019

Allocation of the EU Budget and the CAP expenditures – A Multi-objective optimization problem

Min

$$f_1(x), f_2(x), \dots, f_{27}(x)$$

s. t. $x \in X$

The set X is the feasible set of decision vectors (constraint functions – budgetary, social, externalities, etc.)

Calibration of the parameters related to country decision weights attached to particular policies:

Country 1: $w_1p_1 + w_2p_2, \dots, + w_kp_k$

Country 2: $w_1p_1 + w_2p_2, \dots, + w_kp_k$

⋮

Country 27: $w_1p_1 + w_2p_2, \dots, + w_kp_k$

where:

$$\sum_i^k w_i = 1$$

k – number of policies considered



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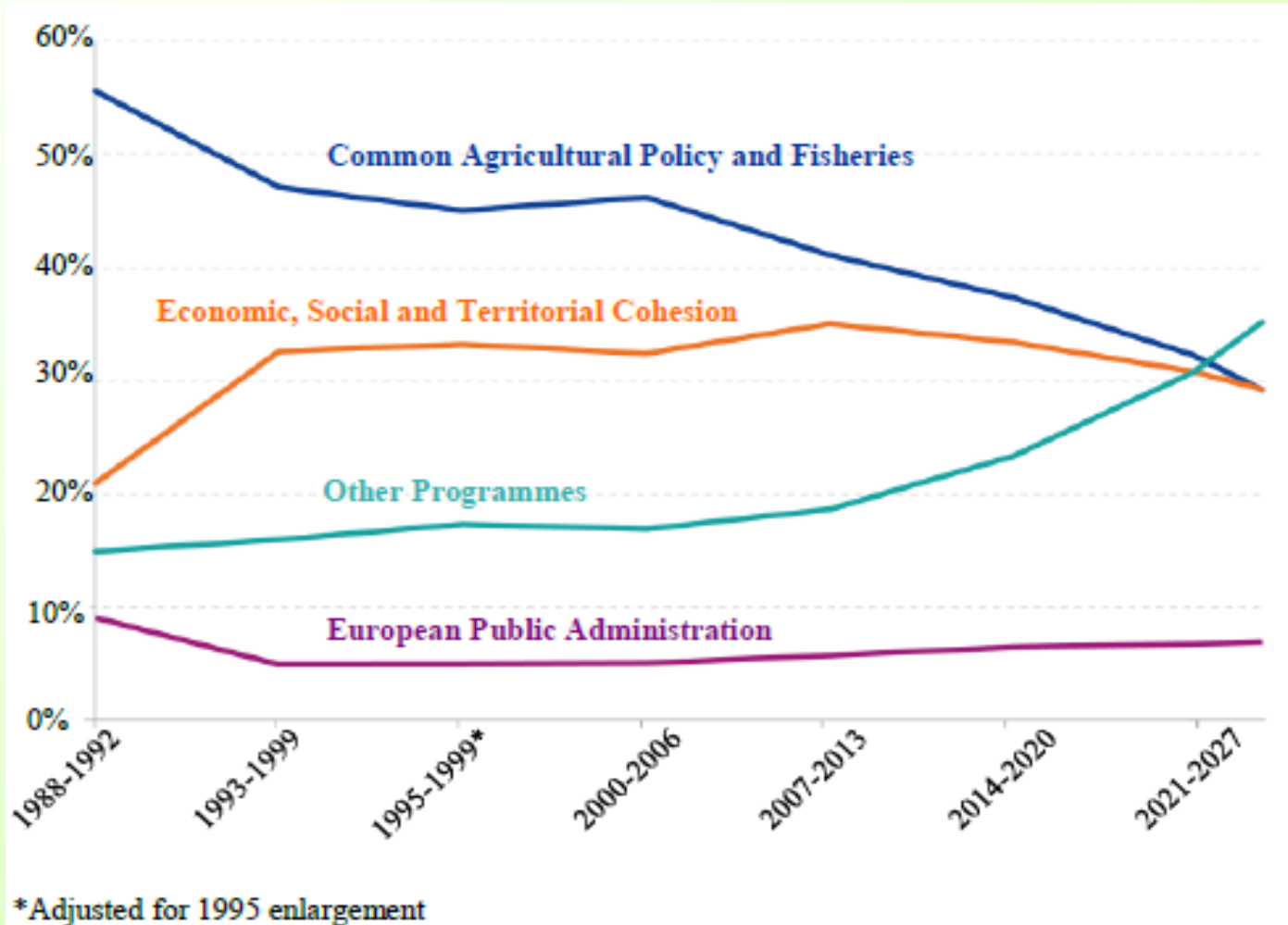
Qualitative and Structural evolution of the EU Long Term Budgets

- 1988-1992 – so called Delors Package I – focused on establishing the Single Market and consolidating the multiannual framework programme for research and development;
- 1993-1999 – Delors Package II – gave priority to social and cohesion policy and the introduction of the euro;
- 2000-2006 – „Agenda 2000" – focused on the enlargement of the Union;
- 2007-2013 – priority to sustainable growth and competitiveness, in order to create more jobs;
- 2014-2020 – getting people into work and the economy growing, tied in with the Europe 2020 strategy for smart, sustainable and inclusive growth;
- 2021-2027 – „A modern budget for a Union that Protects, Empowers and Defends". By moderately reducing funding in Common Agricultural Policy and Cohesion Policy programmes, also responds to the budgetary consequences of the withdrawal of the United Kingdom.



2015 - 2019

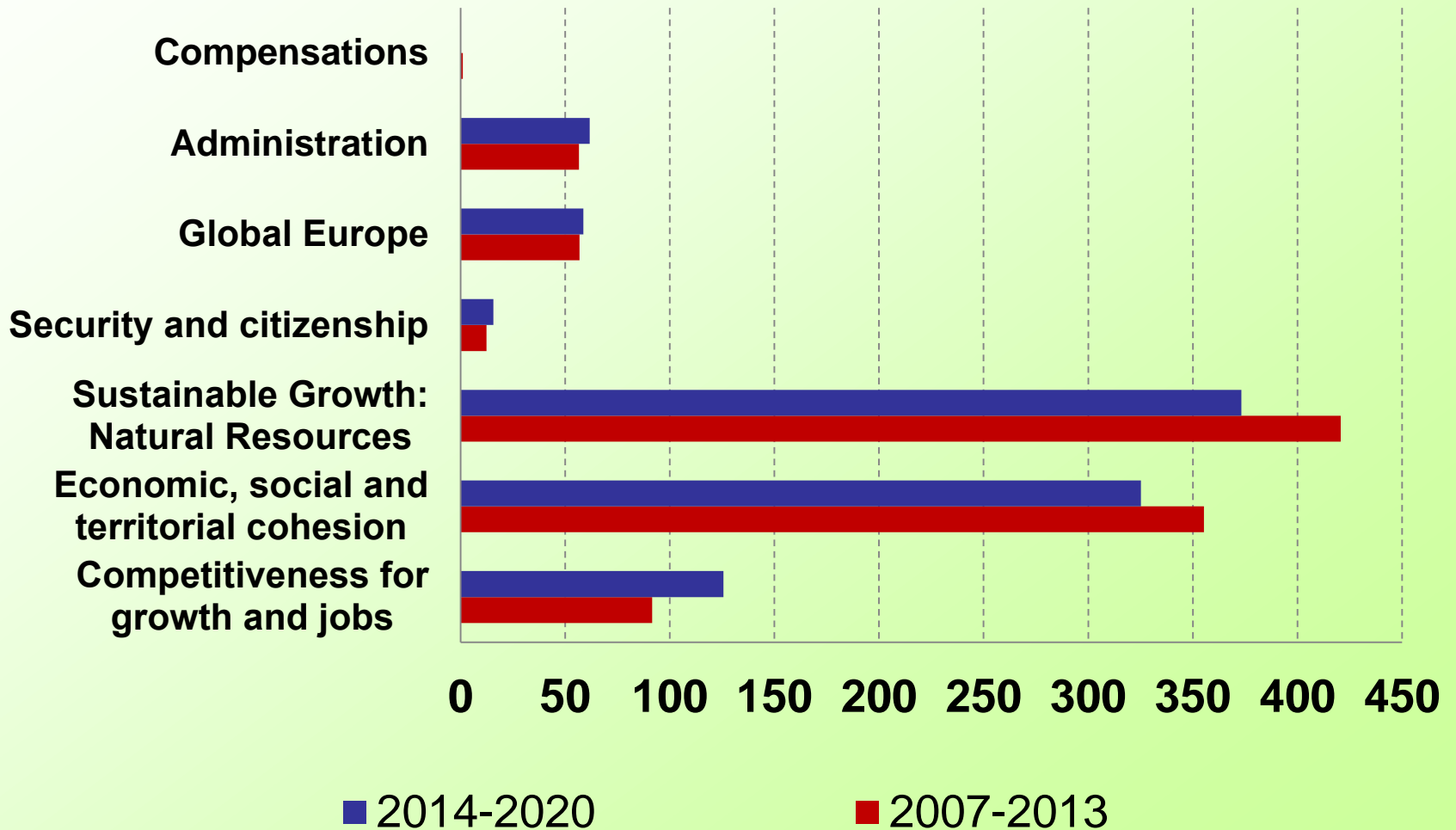
Evolution of Main Policy Areas in the EU Budgets





2015 - 2019

Recent MFF Budgets (billion euros)





2015 - 2019

MFF 2021 - 2027

(billion euros, current prices)



I. SINGLE MARKET, INNOVATION AND DIGITAL

€187.4

- 1 Research and Innovation
- 2 European Strategic Investments
- 3 Single Market
- 4 Space



II. COHESION AND VALUES

€442.4

- 5 Regional Development and Cohesion
- 6 Economic and Monetary Union
- 7 Investing in People, Social Cohesion and Values



III. NATURAL RESOURCES AND ENVIRONMENT

€378.9

- 8 Agriculture and Maritime Policy
- 9 Environment and Climate Action



IV. MIGRATION AND BORDER MANAGEMENT

€34.9

- 10 Migration
- 11 Border Management



V. SECURITY AND DEFENCE

€27.5

- 12 Security
- 13 Defence
- 14 Crisis Response



VI. NEIGHBOURHOOD AND THE WORLD

€123

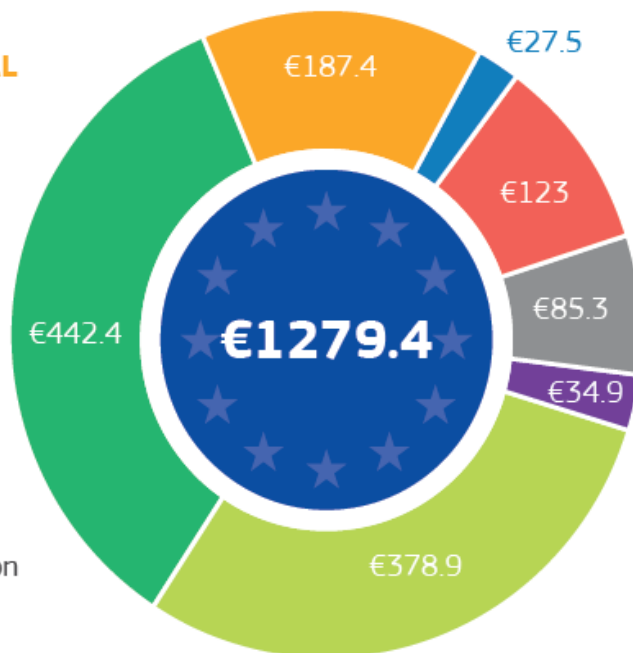
- 15 External Action
- 16 Pre-Accession Assistance



VII. EUROPEAN PUBLIC ADMINISTRATION

€85.3

- 17 European Public Administration





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Key Novelties of the 2021-2027 Long-term Budget – Increasing Funds

- Almost 9 fold increase of investments in digital transformation and networks to reach € 12 billion
- More than doubling programmes for young people (such as ERASMUS+ with €30 billion and the European Solidarity Corps with €1.3 billion)
- almost tripling expenditure for external border management, migration and asylum, to reach around €33 billion, up from the current €13 billion
- Increasing investment in research and innovation by 50%, with €100 billion set aside for the flagship programmes Horizon Europe and Euratom
- Increasing investment in security by 40% to reach €4.8 billion and creating a €13 billion Defense Fund of to complement and catalyze national expenditure in research and capability development. Investments needed to facilitate military mobility throughout the EU will be funded by €6.5 billion through the Connecting Europe Facility
- Reinforcing funding for external action by 26% to reach €120 billion, with a specific emphasis on Europe's neighborhood and preserving a specific (and not pre-allocated) reserve to deal with emerging challenges, notably in the area of stability and migration



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Key Novelties of the 2021-2027 Long-term Budget – Agriculture

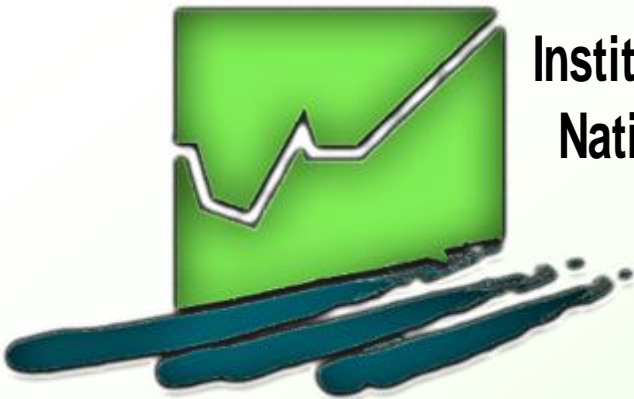
- Ensure the access to high-quality food while maintaining a fully integrated single market for agricultural goods in the EU
- A greater emphasis on the environment and climate and will support the transition towards a more sustainable agricultural sector and the development of vibrant rural areas
- Streamlined and better targeted direct payment levels per hectare between Member States (continue to converge to the EU average)
- Stronger focus on supporting small and medium-sized farms
- Member States will be given more responsibility for making the best use of the agriculture budget (they will have more flexibility than today to shift funds between direct payments and rural development, in line with national needs and targets)
- Creation of the new crisis reserve to address crises generated by unforeseeable developments in international markets or by specific shocks to the agricultural sector as a result of the actions of non-EU countries



2015 - 2019

Final Remarks & Conclusions

- The experienced over time changes of both the level and structure of expenditures on the CAP as well as its future shape can be explained based on the public choice paradigm (rationality vs. irrationality)
- Looking from a longer run perspective market driven efficiency processes in agriculture have prevailed; public intervention can slow them down, but it cannot stop them (deadlocks in policy decisions)
- Decreasing economic importance of agriculture in the EU does not mean its complete marginalization; agricultural producers are likely to be still a privileged group, e.g. due to increased attention paid to preservation of ecosystems



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Thank you for your attention

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