Title: What substitute for direct payments? Learning implications and opportunities of the Common Agricultural Policy reform

Author: Frédéric Morand*, PhD, University of Ireland

Abstract

Direct payments to European farmers have been generalised a decade ago by the MacSharry reform of the Common Agricultural Policy (CAP). Today, they still represent a budgetary burden to the EU Member States. In spite of the Agenda 2000 global reform, they are still not properly meeting environmental and other requirements of integrated rural development. Moreover, their extension to CEEC's raises serious issues of budgetary constraint, distortionary effect, agricultural surpluses, and trade agreement. Last but not least, many structural and socio-economic gaps observed between EU members reinforce the necessity for comprehensive rural development actions, which go beyond paying producer subsidies.

The above reasons help to explain why CAP direct payments are questioned for not being the most effective and least-cost way of achieving sustainability in agricultural and rural areas. Our goal in this paper is to open up the *resource-allocation* paradigm traditionally associated with the debate on farm subsidies, and to examine how rural policy could foster, more than it currently does, *resource-creation* through learning.

In this paper we first document the importance of direct payments in the CAP, and signal the national and EU concerns induced by this dependence of the farming sector on subsidies. We review one decade of lessons from the agri-environmental policy and the European Union LEADER Initiative. Our hypothesis is that perceived profitability and the influence of rural policy on learning are key factors of farm decision-making. With a view to testing this hypothesis, we present a model of learning derived from the French *Economics of conventions* (Learning as making endogenous). We apply this model to preliminary recent empirical evidence collected in Western Ireland. Rural entrepreneurship and basic institutional structures are analysed. We assess the extent to which learning may provide policy-makers with effective levers for integrated rural development in the context of decreasing support to agriculture. We explore policy strategies that might prove less subsidy-intensive than the traditional CAP.

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Areas covered: governance, environmental economics