
Mark Sporer, University of Regensburg

Abstract: The European Economic Community’s Common Agricultural Policy (CAP) has found a lot of scholarly attention. While economists stress the irrationality of the CAP and explain its persistence by rent-seeking behavior, a prominent interpretation among historians is that the CAP should be interpreted as welfare policy for farm households. I subject the latter hypothesis for the period 1962-1992 to an empirical test and find that the combined benefits from subsidies, import protection and political prices gave much more benefits to European agriculture than any welfare policy could have done.

The process of Europe’s economic and political unification has always been regarded as a project of modernity. Democratic and enlightened states overcome national prejudices and boundaries and converge to a peaceful Europe. It is not without irony that the European Economic Community’s (EEC) first and foremost common active economic policy was dealing with agriculture, a backward sector in retreat. The Common Agricultural Policy (CAP) which became operative in July 1962 bound 90 per cent of the EEC’s expenditure in 1970, 60 per cent in 1990, and still more than 40 per cent of the EU’s expenditure today.²

The CAP has always been contested. Strikingly, although the early criticism of economists soon turned out to be correct, the CAP was not fundamentally reformed until 1992, when the then Commissioner of Agriculture Ray MacSharry undertook a major reform. The thirty year long persistence of the original CAP has often been analyzed. The approaches taken by the literature may be grouped in three different narratives.

¹ Financial support of the German Historical Institute Paris and the Deutsche Forschungsgemeinschaft (SP 948/4-1 579193) is gratefully acknowledged.

Many historians and political scientists who have worked on the CAP emphasize the role of incremental steps at critical junctures which at the time seemed innocuous. Hence the institutional inertia of the CAP is ascribed to increasing difficulties of leaving a trajectory determined by earlier decisions.³ The main point of this narrative is best circumscribed by the notion of path dependence (Adrian Kay).⁴

This interpretation is quite convenient for contemporary actors as it stresses long-term forces that were outside their control. The narrative is contested by a number of (agricultural) economists, some of which were among the contemporary actors, for example in the academic world or in international organizations such as Timothy Josling, Ulrich Koester or Stefan Tangermann.⁵ Many economists take the public choice approach which assumes that politicians are neither benevolent nor myopic actors but that they behave rationally and pursue their own interests rather than the commonweal. In this perspective the institutional inertia of the CAP is not the result of unintended actions but of successful rent-seeking behavior by agrarian lobby groups.⁶

A third group embeds the history of the CAP in a wider perspective. Adam Sheingate and Christina Knudsen argue that any understanding of agricultural policies in advanced economies has to be rooted in the larger framework of the welfare state. In this perspective the CAP is a special welfare policy that maintained agrarian incomes while sustaining the illusion that European farmers were not on welfare.⁷ In contrast to authors who favor the rent-seeking explanation this interpretation sheds a new light on the CAP. While the former view emphasizes the economic irrationality of the CAP, the latter tends to legitimize this policy.

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In this paper I shall subject the welfare policy argument to an empirical test. Building on former work that aimed to identify the full gross costs of the CAP\(^8\) I will compare ‘normal’ welfare state expenditure with that for the CAP. I will argue that, especially in the 1960s and 1970s, the CAP was much more beneficial for EEC farmers than any welfare policy could have been. This approach will also allow calculating a lower bound for the returns of agricultural rent-seeking activities in the EEC. The welfare state view of the CAP, however, is not fully discarded but integrated as a valuable argument into the rent-seeking view.

The next section discusses the literature and the problem in more detail, followed by a section on methodology and on sources. I then present the empirical results and discuss them in a concluding section.

**Successful rent-seeking and lobbies: why in agriculture?**

Economic theory usually abstains from making normative assessments of justice. In theory one takes for granted that economic agents are rewarded for providing productive factors in the production process. Labor is rewarded by wage, capital by interest and land by rent. While this, in a utilitarian sense, is seen as fair, other rents are regarded as suspicious. Rent-seeking i.e. trying to receive rents via the political process is usually used in a pejorative sense. Accordingly, political rents are assessed as unfair.

In the literature on the political economy of agricultural policies it is often argued that agricultural protection is a result of successful rent-seeking.\(^9\) This is usually substantiated in an indirect way. The co-existence of agricultural lobby groups and political programs that are meant to support agriculture is taken as a sufficient proof for rent-seeking to be successful, without much more than anecdotal evidence. What is often ignored is that in political centers like Washington, D.C., or Brussels thousands of lobby groups strive for political support and subsidies. Hence it is by no means obvious why some lobby groups are successful and others are not, and economic theory does not give much help in this respect.

In his classic on the “Logic of collective action”\(^10\) Mancur Olson listed some factors that are conducive to collective action. In order to minimize the risk of free-rider behavior the lobby group should be small and its members should pursue well-defined objectives.

If one compares the fate of Western Europe’s post-WWII agriculture with other economic sectors, it is by no means clear why it was agriculture that survived structural change to a much larger extent than other industries. The European textile industry was wiped out in the 1950s and 1960s. Although this affected hundreds of thousands workers there were

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no lobbies powerful enough to stop the industry’s demise.\textsuperscript{11} As the textile industry was very fragmented and its products extremely heterogeneous (and, an often neglected issue, most affected persons were women) this does not conform at all to Olson’s criteria for collective action to be effective. In this respect, the mining industry fits perfect: few and powerful producers, high degree of cartelization, very homogeneous products. But although the mining lobbies were quite successful to postpone structural change by enormous subsidy programs, the industry has largely vanished in Western Europe.

Not so agriculture. The supply side is nearly atomistic. Farmers produce very different products to the extent that the output of some (crop) farmers is the input of other (dairy) farmers which leads to diametrically opposed ideas of how the relative prices should look like. Hence agriculture is far from being a textbook case for collective action. Nevertheless, despite of two or three decades of shrinkage European agriculture has resisted to economic displacement. Between 1958 and 1990 the share of the EEC-6’s territory that was under agricultural cultivation decreased only from 64 to 55 per cent.\textsuperscript{12} Given the impediments to successful collective action, the rent-seeking argument, if applied to (West European) agriculture, needs some refinement.

Thus we have to look for reasons why some rent-seeking is more successful than other. It is not sufficient to look at the group of the rent-seekers – the public who has to be convinced is worth a closer look as well. Although most proponents of the welfare state argument do not explicitly make this point: it is here where they may fill a gap in the argument. Has agricultural rent-seeking been more successful than its competitors for subsidies because there was a shared understanding, a kind of ‘moral economy’, that agricultural producers were more legitimated to receive support than other producers? And that they deserved a different way of support, leaving the farmers in the illusion that they were active entrepreneurs rather than passive welfare recipients?

If this interpretation of a certain consensus between agricultural lobbies and postwar societies is correct one should assume that the costs of protecting Europe’s farmers were roughly in line with the costs of the welfare state (per beneficiary, respectively), or, put the other way round, the benefits of the CAP for the European farmers similar to the benefits of the welfare state.


\textsuperscript{12} Calculated from FAO, Production Yearbook 13 (1959), pp. 3; 45 (1991), p. 11. The figure for 2010 is somewhat below 50 per cent, calculated from Eurostat data for the six founding states; data for 2010 include Eastern Germany.
In the following I will try to assess this empirically in an admittedly quite rough manner. However, although the data will not exactly represent what we are looking for, I will be able to assure that any bias works in the opposite direction of my argument.

**Methods and data: Measuring agricultural protection and support and the costs of the welfare state**

The public discourse on the CAP has always focused on the amount of subsidies to agricultural producers and whether and to which extent they are justified. The subsidies appear on the expenditure side of the EU budget. As the EU is (and the EEC was) financed by contributions of its member states and by customs duties which these states ceded to the EEC it is obvious that the subsidies are paid by European taxpayers.

But farmers profited much more from the EEC. Since the start of the CAP in July 1962 the EEC determines the domestic prices of many important agricultural products and protects them by variable import levies against cheaper imports from outside the EEC. If, in their notoriously controversial negotiation rounds on wheat prices, the agricultural ministers of the EEC member states agreed to a common price of $p$, to be guaranteed within the EEC and the world price was $p_w$, the import levy amounted to $p - p_w$ (somewhat simplified).\(^{13}\) The difference was paid by European consumers in the supermarkets.

Hence calculating the total costs of agricultural protection and support requires the addition of, first, the fiscal costs which are disclosed in the EU budget borne by taxpayers and, second, the costs due to political prices borne by consumers which are of course not relevant in the budget. In order to avoid any confusion with economic costs in the sense of welfare economics I call the sum ‘gross economic costs’.\(^{14}\)

A thorough calculation of gross economic costs requires vast amounts of information on the markets which are affected by the CAP. Fortunately, most of the work is done by international organizations. As agricultural protectionism was a major impediment to post-war international trade rounds within the GATT and WTO framework (Kennedy, Tokyo, Uruguay, Doha etc.), the OECD ministerial council decided in 1982 to take a closer look at the agricultural sector. The OECD Secretariat chose the concept of the ‘producer subsidy equivalent’ (PSE), predecessors of which had been developed by trade economists in the 1960s to measure the economic effects of current practices of agricultural protection and support. The notion of the PSE had been developed by the economist Tim Josling in the early 1970s, who refined the concept and used it in his work for the Food and Agriculture Organization (FAO).\(^{15}\) In 1999 the concept of the PSE underwent several conceptual changes and was renamed ‘producer support estimate’, apparently to remove

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14 The thus defined gross economic costs differ from economic costs in the sense of welfare economics by two positions: the ‘welfare loss triangles’ are not included, and – empirically much more important – the transfers to the farmers are not subtracted.

normative connotations. Further minor changes were added in 2007. As a result of the redefinition in 1999 the PSE data produced by the OECD display a structural break in 1986. The data for the years from 1979 to 1985 follow the old concept, while all data from 1986 have been recalculated according to the new concept. I will come back to this problem below.  

As the share of agriculture in developed countries’ GDP continues to shrink, agricultural protection and support has become less of a problem. For the less developed countries (LDCs), however, it remains high on the agenda of economic reform. So, for similar reasons as the OECD 25 years before, the World Bank built up a large database to measure agricultural protection in LDCs. Fortunately, from this paper’s point of view, this database includes most developed countries as well; in fact it builds directly on the data collected by the OECD. In contrast to the OECD, which treats the EU as a single political unit, the World Bank data relate to individual EU member countries and stretch back to 1956. Table 1 summarizes the main characteristics of both databases.

### Table 1: OECD and World Bank Agricultural Protection Databases

<table>
<thead>
<tr>
<th></th>
<th>OECD old</th>
<th>OECD new</th>
<th>World Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU coverage</td>
<td>EU as a unit</td>
<td>EU as a unit</td>
<td>individual EU12 states except BE, GR, LU</td>
</tr>
<tr>
<td>Measurement concepts</td>
<td>CSE*, PSE*, NAC</td>
<td>CSE, PSE, TSE, NAC</td>
<td>NRA</td>
</tr>
</tbody>
</table>

Notes: BE, GR, LU – Belgium, Greece, Luxembourg; CSE/PSE/TSE – consumer/producer/total support estimate (* formerly consumer/producer subsidy equivalent); NAC – nominal assistance coefficient; NRA – nominal rate of assistance.


In the following we will take a closer look at the economic concepts behind these acronyms.  

Both the OECD and the World Bank assume that the economies under consideration are ‘small’ in the sense of trade theory, i.e. their imports or exports do not affect world prices so that a partial equilibrium analysis is sufficient. This appears as a

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17 Except for the discussion of the welfare loss triangles I follow OECD (2008: 54-56). Figures 1A and 1B are also taken from that source but have been slightly extended.
somewhat heroic assumption in the case of some EU produce like dairy products. Figure 1A considers the case of an imported good. DD is the domestic demand curve, SS the domestic supply curve.

Figure 1A: Welfare effects of an import levy

In the presence of free trade the domestic price equals the world price MP so that producer output will be QP₁ and consumer demand QC₁. The difference between domestic demand and domestic production will be imported, QC₁-QP₁. Now a tariff (or import levy) is introduced which raises the domestic price from MP to DP. The price increase encourages domestic producers to expand their production which rises to QP₂ while domestic demand falls to QC₂ and imports to QC₂-QP₂. The rectangle abcd stands for the value of transfers to producers from consumers (TPC) and the rectangle cdef for the value of other transfers from consumers (OTC), here the levies that consumers have to pay for the imports which equals the market price differential MPD times the imported quantity QC₂-QP₂. In contrast to TPC, which goes to domestic producers, the money amount of OTC is collected by the state. Note that while TPC and OTC are accounted for in the OECD/World Bank framework, the welfare loss triangles efo, which stands for

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consumption having been crowded out by higher prices, is not recorded, and cdp, inefficient use of resources, is not identified as such.

Under the CAP, the EEC quickly became a net exporter in many agricultural markets. Figure 1B discusses the welfare effects of subsidizing excess production.

Figure 1B: Welfare effects of subsidizing excess production

In the undistorted free trade case domestic producers realize QP₁ at the given world price XP. QC₁ is sold on domestic markets, QP₁-QC₁ is exported. If the government fixes the price at DP, domestic demand declines and producers sell only QC₂ at home, the rectangle ghij is transferred to producers from consumers (TPC). Under price guarantee systems like the CAP, producers are guaranteed that all their production is sold at DP. Consequently they expand production to QP₂. As they (or public marketing agencies on their behalf) do not receive more than the price XP on the world markets, producers receive subsidies amounting to the rectangle ijkl (transfers to producers from taxpayers, TPT). In this case, consumers lose TPC, and taxpayers lose TPT which includes the foregone consumer rent triangle ijn, whereas producers win a bit less: they are induced to use more economic resources than would be efficient from a macroeconomic point of view, the welfare loss triangle klm. Again, klm is not recorded in the OECD/World Bank framework, and ijn is not identified as such.
TPC and TPT are the most important components to calculate the market price support (MPS) which the OECD defines as

"the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm gate level, arising from policy measures that support agriculture by creating a gap between domestic market prices and border prices of specific agricultural commodities."\(^{19}\)

The MPS for a commodity is determined by adding together transfers to producers from consumers and taxpayers, TPC and TPT. One has to subtract however price levies LV, better known as production taxes which might be imposed on producers as part of market price support policies\(^{20}\) and excess feed cost EFC. EFC accounts for the transfers that go from livestock producers to feed producers when the former buy produce from the latter which has been made dearer by the support policy. Then

\[
(1) \ MPS_i = TPC_i + TPT_i - LV_i - EFC_i \text{ for commodity } i.
\]

In both the import case and the export case TPC + TPT equals MPD \(\times\) QP\(_2\) so that

\[
(2) \ MPS_i = (MPD_i \times QP_{2i}) - LV_i - EFC_i \text{ for commodity } i
\]

which is much easier to determine empirically than (1) as the difference between domestic price and world price (MPD) and the domestically produced quantity QP\(_2\) are comparably easy to observe. LV is taken from budget data and EFC is calculated by multiplying the market price differential for feed crop j by the quantity of crop j used as an input into the production of commodity i (if this is a livestock commodity).

The Producer Support Estimate (PSE) is a broader measurement concept and is defined as

"the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm gate level, arising from policies that support agriculture, regardless of their nature, objectives or impacts on farm production or income."\(^{21}\)

The PSE for a country c is calculated by adding together MPS\(_i\) for all commodities and adding the aggregate budgetary and other transfers to producers from policies (BOT).

\[
(3) \ PSE_c = MPS_c + \sum \text{BOT}_c
\]

Like the MPS, the PSE is a figure expressed in currency units. For international comparisons the OECD recommends the Percentage PSE (%PSE) and the Producer Nominal Assistance Coefficient (NAC). For the calculation of %PSE, PSE is related to the value of gross farm receipts (GFR) which is the sum of the value of production (VP) and BOT.

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\(^{19}\) OECD (2008: 57).

\(^{20}\) The OECD implicitly assumes that the levies are fully borne by producers.

\(^{21}\) OECD (2008: 107), emphasis added by the author.
\[
(4) \quad \% PSE_c = \frac{PSE_c}{VP_c + BOT_c} \times 100 = \frac{PSE_c}{GFR_c} \times 100
\]

The producer NAC is determined by dividing the value of gross farm receipts by the value of production at border prices:

\[
(5) \quad NAC_c = \frac{GFR_c}{VP_c - MPS_c} = 1 + \frac{\% PSE_c}{100 - \% PSE_c}
\]

The Agricultural Distortions Project of the World Bank bases its measures on the same framework as the OECD. For its database the World Bank has chosen the Nominal Rate of Assistance (NRA), which is NAC minus unity.\(^{22}\) From this identity, (4) and (5) it follows by substitution:

\[
(6) \quad NRA_c = \frac{PSE_c / GFR_c}{1 - PSE_c / GFR_c} = \frac{PSE_c}{GFR_c - PSE_c}
\]

In the absence of distortionary measures (PSE=0), NAC equals unity and NRA equals zero. Figure 2 illustrates the different flows measured by PSE.

**Figure 2: Producer support estimate**

**Producer Support Estimate** \[\text{PSE} = \text{TPC} + \text{TPT} - \text{LV} - \text{EFC} + \text{BOT}\]

If one compares the shaded areas in Figures 1A and 1B with Figure 2, the flow represented by rectangle OTC of Figure 1A is missing in Figure 2. This is because transfers

\(^{22}\) Cf. OECD (2008: 171).
from consumers to the state are not recorded in the PSE framework. (In Figure 2, OTC would be an arrow from consumers to taxpayers.)

The OECD/World Bank data are a very valuable database. Apart from the conceptual welfare analysis problem just discussed (deadweight losses are not accounted for), one must however be aware of other shortcomings. Only important agricultural products are covered by the database. The most important problem from a historical point of view is that the variables BOT and GSSE are only available since the year 1986. Although these components of agricultural support were less important until the 1990s, this is an unwelcome structural break in the time series discussed below. Any protection measure not recorded in this framework leads to further underestimation of the true degree of protection. As a consequence, we can calculate until 1985 only a slightly reduced variant of PSE. In the following, PSE is calculated from the World Bank database, which stretches further back than the OECD database.

As

\[ NAC_c = \frac{GFR_c}{VP_c - MPS_c} \]  \hspace{1cm} (7)

\[ GFR = VP + BOT \]  \hspace{1cm} (8)

\[ PSE = MPS + BOT \]  \hspace{1cm} (9)

it follows by substitution that

\[ PSE = (VP + BOT) \times \left(1 - \frac{1}{NAC}\right) \]  \hspace{1cm} (10)

These variables can be obtained from the World Bank database.\(^{23}\)

It is much less problematic to find data on the costs of the welfare state. The OECD publishes online data for the period since 1980 which is compatible with figures for the period from 1960 to 1981 published in book form. For the period before 1960 the International Labour Office in Geneva has collected data in a joint venture with a social sciences think tank in Mannheim, Germany (MZES). Starting with the late 1940s and until 1997, the ILO and the MZES supply data for roughly every three years.

The ILO/MZES data are in national currencies. For years in which these were convertible, I converted the social security cost data into Euro.

\(^{23}\) I proceed as follows (variables taken from the World Bank database are in lower case letters): NAC = nra_todt + 1, VP = vop_tot â NAC (in order to correct for the difference between domestic and world market prices) and BOT = nps. In order to check whether this interpretation of the World Bank database corresponds to equation (10) I compared the PSE figures calculated by this method from the World Bank database with the OECD’s figures for Australia, Canada, Iceland, Japan, New Zealand, Norway, Switzerland and the US for 1986 to 2007. The correlation coefficient is 0.986.
**Results: Agricultural protection and support vs. welfare costs**

We now have data on agricultural protection and support (PSE) and the costs of the welfare state (WC). The idea behind the following analysis is that if the CAP is to be interpreted as a welfare policy for agricultural households, then its costs should be roughly in line with traditional welfare costs. Both PSE and WC should be related to their potential beneficiaries. For these I take agricultural employment EMP$_a$ and total (civilian) employment EMP, respectively.

Note that this comparison is biased. While PSE flows to farmers, WC flows to all employed, non-farm and farm households alike. Moreover, there are numerous other support measures for farmers taken by national governments. Hence the support to farmers is clearly underestimated.

A simple transformation allows rendering the comparison more intuitive:

\[
\frac{PSE}{EMP_a} \approx \frac{WC}{EMP} \Leftrightarrow \frac{PSE}{WC} \approx \frac{EMP_a}{EMP}
\]

It says that the ratio of agricultural protection and support (PSE) and welfare costs (WC) should be compared to the share of agriculture in total civilian employment (EMP$_a$ / EMP). Figure 3 gives the results for the EEC-6.

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24 For the German case, see the extremely detailed and thorough analysis of Streb, Jochen (1996): *Eine Analyse der Ziele, Instrumente und Verteilungswirkungen der Agrareinkommenspolitik in der Bundesrepublik Deutschland, 1950 bis 1989*. Holm: AgriMedia. According to his figures (calculated from pp. 312 and 354), the policies of the CAP contributed to only 57.3% of total protection and support to German farmers between 1962 and 1989.
Figure 3: Ratio of agricultural protection and support and total welfare costs compared to the share of agriculture in total civilian employment, 1957-2003 (EEC-6)

Sources: see appendix.

Welfare costs (graph with rhombus) and the PSE (graph with dots) are plotted on the left hand scale, which is logarithmic. 1957 is the only pre-EEC and pre-CAP year for which there are data for both measures. While the welfare costs in the six European states that became the EEC-6 effective January 1st, 1958, exceeded 21 billion €, the aggregated national agrarian protection and support amounted to 4.3 billion €. Both measures increased enormously in the next decades, as both the national welfare states as well as the CAP expanded. High inflation rates also contribute to the upward trend.

When the CAP substituted national agrarian policies in 1962, protection increased sharply.\(^{25}\) Table 2 illustrates why the EEC was soon termed ‘Fortress Europe’.

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Table 2: EEC import protection before and after introduction of the CAP (nominal rate of protection in per cent)

<table>
<thead>
<tr>
<th></th>
<th>1959</th>
<th>1968</th>
</tr>
</thead>
<tbody>
<tr>
<td>Live animals</td>
<td>14.4</td>
<td>48.5</td>
</tr>
<tr>
<td>Meat, edible meat offals</td>
<td>19.0</td>
<td>52.1</td>
</tr>
<tr>
<td>Dairy produce, bird’s eggs</td>
<td>18.6</td>
<td>137.3</td>
</tr>
<tr>
<td>Cereals</td>
<td>13.5</td>
<td>72.4</td>
</tr>
<tr>
<td>Sugar, sugar confectionery</td>
<td>75.8</td>
<td>41.9</td>
</tr>
<tr>
<td>Beverages, spirits</td>
<td>21.6</td>
<td>37.7</td>
</tr>
</tbody>
</table>


This is reflected in a sharp increase of PSE from 5 billion € in 1961 to 14 billion € in 1962. As a consequence, the continuous line in figure 3, which depicts PSE/WC, increases sharply. In the period thereafter, the welfare state expanded faster than agricultural protection and support – not surprisingly, as agriculture was a sector in secular decline. This is why PSE/WC is related to the agricultural employment share, the dotted line.

If it would be fair to see agricultural protection and support merely as a substitute for welfare support in a somewhat different form, then both the continuous graph for PSE/WC and the dotted graph for the agricultural employment share should be close together and follow a similar trajectory. Obviously, this is not the case. The CAP did not just continue former national agricultural policies but boosted agricultural protection and support to hitherto unprecedented (postwar) levels. Over time there is a quite smooth path of convergence, interrupted only by the world food crisis from 1973 to 1974 which propelled food prices and thus drove the PSE down. Only since 1992, i.e. at the time of the MacSharry Reform, do both ratios follow a nearly identical trajectory (see figures in Table A1 in the appendix).

The comparison of PSE/WC and the agricultural employment share allows assessing the political rents extracted by agricultural lobbies in Brussels. As argued above the comparison of both ratios is biased because farm households benefited not only from agricultural protection and support but from welfare benefits as well. In so far I can only estimate the lower bound of rent-seeking (RS). For the sake of the argument to be tested – agricultural protection and support is simply another means of welfare benefits to farm households – I assume that all welfare costs went to non-farm households. WC / (100 – agshare) is then the norm against which we have to assess PSE / agshare. The result is expressed in per employed and has thus to be multiplied by agshare. It is the absolute amount of PSE that exceeds hypothetical additional welfare expenses for farm households:
\[ RS = \left( \frac{PSE}{agshare} - \frac{WC}{(100 - agshare)} \right) \times agshare \]

An example may illustrate how RS is calculated. If total welfare cost is 100 and the agricultural employment share 20 percent, then the second expression within brackets is 1.25. Under the assumption to be tested, i.e. agricultural protection and support was just a substitute for welfare (and RS = 0), hypothetical PSE should equal 25, as 25/20=1.25. If actual PSE was 30, then the returns of political rent-seeking (RS) are 5. Note that this way to calculate RS is the lower bound of true political rents because WC did not exclusively accrue to non-farm households.

**Figure 4: The returns of agrarian rent-seeking in Brussels (lower bound), 1962-2003 (EEC-x)**

The returns of rent-seeking follow a trajectory which is not too surprising given the results of the preceding section. The start of the CAP was a boost to agricultural producers, and their returns were much higher than had they just received ordinary welfare benefits. This development changes in the short-lived food crisis of 1973-74 but soon resumes its path and even reaches its peak (in real terms) in the late 1970s and early 1980s. While welfare costs still increased in the 1980s, PSE attained its peak in 1983 and then continuously fell. In the early 1990s, at the time of the MacSharry reforms, RS falls below the axis and remains there (except 1999).
Table 3: Average annual rent-seeking returns for different base years (bn. €)

<table>
<thead>
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<tbody>
<tr>
<td>1962-1972</td>
<td>EEC-6</td>
<td>5.0</td>
<td>10.6</td>
<td>34.8</td>
</tr>
<tr>
<td>1981-1985</td>
<td>EEC -10</td>
<td>9.9</td>
<td>21.1</td>
<td>69.3</td>
</tr>
<tr>
<td>1986-1992</td>
<td>EEC -12</td>
<td>1.7</td>
<td>3.7</td>
<td>12.2</td>
</tr>
<tr>
<td>1962-1992</td>
<td>EEC -x</td>
<td>4.9</td>
<td>10.4</td>
<td>34.1</td>
</tr>
</tbody>
</table>

Source: appendix.

Table 3 calculates average annual returns which were quite constant: 5 bn per year in 1967 prices or 34 to 35 bn in prices of 2000. However, the number of member states increased, while the number of farms per country decreased and, as a consequence of the EEC’s southern enlargement, the average farm size as well. Because of the many small south European farms it does not make much sense to compare per farm figures over the full period under consideration. Hence Table 4 gives the returns per farm for the EEC-6 and the EEC-9 only.

Table 4: Average annual rent-seeking return for per farm holding (€, p=2000)

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<tbody>
<tr>
<td>1962-1972</td>
<td>EEC-6</td>
<td>700</td>
<td>1,485</td>
<td>4,874</td>
</tr>
<tr>
<td>1973-1980</td>
<td>EEC-9</td>
<td>666</td>
<td>1,407</td>
<td>4,614</td>
</tr>
</tbody>
</table>


We see that, despite of the world food crisis in 1973-74, returns per farm were quite constant. This underlines once more that the second half of the 1970s and the early 1980s were the heyday of agricultural protection and support in the EEC.
Concluding remarks

Our considerations lead us to a critical judgment of the welfare state argument as it is usually made. From an economical point of view, any rent that does not reward the input of production factors in the production process is usually seen as a political and thus—in a utilitarian sense—an unfair rent (unless it is justified by special factors such as external effects etcetera). The rents that the agricultural sector earned in the 1960s, 1970s and early 1980s were clearly political, and certainly higher than could have been legitimized in a transparent political process. In so far the results very clearly show that the combined benefits from subsidies, import protection and political prices gave much more benefits to European agriculture than any welfare policy could have done.

If one wants nevertheless legitimize these rents (or part of it), one has to turn to factors outside the economic sphere. For example, parts of these rents might be interpreted as a political premium for services that farmers rendered to society. Peter Moser has made the point that the Swiss agricultural policy (which resembles that of the EEC/EU[20]) set the incentives in a way that induced farmers to partially shift from producing profitable dairy products for the world market to non-profitable cereals that would provide more calories in times of external political distress.[27] At least in the 1950s and 1960s which were overshadowed by the Cold War the food security argument was probably more than just rhetorical.

In this sense the ‘soft’ arguments in favor of receiving subsidies and protection from Brussels—protection of food supplies in distress, of the family farm, of the landscape, of the environment—may be interpreted in the framework above as claims for political premiums paid to farmers. Of course, this did not happen in a transparent process. Any effort to ‘objectively’ measure the public goods benefits of farming would have met strong criticism; economics as a profession did (and does) not have the technical-statistical means and the credibility to perform such analyses.[28] Hence lobby groups preferred to mobilize emotions to pursue their interests.

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[26] If one uses Swiss data for the graphical analysis of Figure 3, the results are nearly identical.


[28] There are remarkable documents in the Swiss Federal Archives showing that the Swiss authorities were aware of these ‘modern’ arguments already in the early 1970s, including environmental issues: Gutachten über den Aufwand von Wirtschaft und Staatsaufwand für den Agrarschutz: Erfassung, Beurteilung und Folgerungen. Dritter Teilbericht: Beurteilung der Aufwendungen von Wirtschaft und Staatsaufwand für den Agrarschutz. Erstattet von Prof. Dr. H.C. Binswanger unter Mitarbeit von mag.oec. K. Müller, St. Gallen Oktober 1970, p. 8 (E7001C#1984/200#1551*); Bericht der vom Eidg. Volkswirtschaftsdepartement eingesetzten Vorbereitenden Expertenkommission betreffend Direktzahlungen an die Landwirtschaft, Dezember 1972, pp. 12-18 (E7220A#1982/109#79*). But the
These tentative considerations may give some clues why the CAP persisted so long. The agrarian lobbies were more successful to slow down the process of structural change than lobbies of other retreating industries because their rhetoric pointed to arguments which at the time could only be ‘felt’ rather than discussed in a more rational way. The voters’ striking willingness to accept (and pay for) exceptions for agriculture, both as a taxpayer and as a consumer, may be explained by sentiments that, at the time and maybe even today, were hard to rationalize. Agriculture produces food, food is man’s most important consumption good and may thus induce an extreme risk-aversion—a perfect condition for successful rent-seeking.

References


## Appendix

Table A1: Welfare costs, producer support equivalent, and agricultural employment share in the EEC-x, 1956-2003

<table>
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<th>WC mio. €</th>
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<th>PSE mio. $</th>
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Notes: agshare – share of agriculture in total civilian employment, PSE – producer support estimate, RS – returns of rent-seeking (lower bound), WC – welfare costs

Sources

Welfare costs

For the years after 1960 I rely on social security cost data compiled by the OECD. The data for the years since 1980 are easily obtainable on the internet. The years before 1980 have to be retrieved from an older publication. The data of these two sources overlap for the years 1980 and 1981. A comparison of the data reveals that the data collection for 1960-1981 followed a broader concept than today’s, the difference being education costs. Hence to make the two databases compatible I subtracted education costs from total social expenditure in the 1960-81 data base. The result leads to satisfactory results for the overlapping years.

For the years before 1960 and for Luxembourg before 1980, I rely on data supplied by the International Labour Office/Organization (ILO). Already since the 1930s the Geneva-based ILO has collected information on the cost of social security. In the 1980s and 1990s a research team at Mannheim University (MZES) led by Peter Flora compiled a database that covered the cost of social security between 1949 and 1993 for 23 states. I checked in how far the ILO data and the OECD data correspond in 1960, when the OECD data start. As the correlation coefficient is .986 I decided to use the ILO data for the EEC-6 prior to 1960.

All original data are nominal and in local currencies. I converted the national data (except those which are expressed in Ecu/Euro) to US-$ by using the historical exchange rate series supplied by Eurostat and by the website of Lawrence Officer (described in the section on exchange rates). I then aggregated the national series into a EEC-x series and converted it to Ecu/Euro with the US-$/Euro exchange rate series.

29 OECD.Stat, data extracted 5 January 2011 (source used: "public and mandatory private").
31 The OECD data for 1960 to 1979 do not cover Luxembourg. I calculated the ratio of Luxembourg’s and Belgium’s social security cost in 1980 (= 2.5 %) and extrapolated the Luxembourg series accordingly backwards.
32 The correlation coefficient for the overlapping data in 1980 and 1981 is 99.6 per cent.
33 The concept of social security covers eleven schemes: compulsory and voluntary social insurance, universal non-contributory schemes, provident funds, employers’ liability in respect of employment injuries, family benefit schemes, national health service, special schemes for public employees, public assistance, benefits for war victims, industrial and occupational schemes. Not included are cost for the following four social policy functions active labour market policies, housing, creation of wealth and education. The social security concept which has been used by the ILO for the years after 1993 is not fully compatible (International Labour Organization, http://www.ilo.org/public/english/protection/secsoc/areas/stat/css/index.htm (accessed 3 February 2011). The data for the years since 1990 are available online.
Exchange rates

In 1950 the newly-founded European Payments Union created a parity unity of account (UA) for clearing transactions between its member countries, which was taken over by the European Community for Coal and Steel in 1952 and by the European Communities in 1957 for their budgets. Initially the UA equaled one US-Dollar. When the Bretton Woods system collapsed in August 1971 and currencies floated, the EC pegged the UA to the gold value that the US-Dollar had had between 1934 and 1971. The UA was replaced by the Ecu in March 1979, which in turn gave way to the Euro in January 1999.\textsuperscript{34} Note that until December 1998 the Ecu was like the UA a fictitious unit of account that was not legal tender or could be traded on markets.

The exchange rate between the UA and the US-Dollar was one until August 1971. The rates since 1971 are supplied by Eurostat.\textsuperscript{35} The UA/Ecu exchange rates for the years back until 1952 are calculated from the MeasuringWorth website of the American economist Lawrence H. Officer.\textsuperscript{36}

Producer support estimate

The economic costs are measured by the PSE concept using the OECD/World Bank data. In addition to the fiscal costs borne by the taxpayers, they also include those borne by the consumers who pay politically influenced prices for food directly or indirectly (if processed) subject to CAP regulation rather than (usually lower) world prices. As the World Bank’s agricultural protection database does not include Belgium and Luxembourg I estimated the PSE for the EEC-6 by adding up PSE for all other member countries and add a fictitious PSE for Belgium and Luxembourg (90 per cent of the Dutch PSE).\textsuperscript{37} From 1986 onwards, I rely directly on the OECD’s PSE data for the EU as a whole.\textsuperscript{38} The original PSE data are in US dollar. As our focus here is on the burden borne by taxpayers and consumers of the EU, the interpretation should not be blurred by the fluctuations of the US dollar. Hence I

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\textsuperscript{37} The results are very similar if I assume that the combined PSE of Belgium and Luxembourg is equal to that of the weighted average of the other EU member states.

\textsuperscript{38} I proceed as follows (variables taken from the World Bank database are in lower case letters): NAC = nra_totd + 1, VP = vop_tot * NAC (in order to correct for the difference between domestic and world market prices) and BOT = nps. In order to check whether this interpretation of the World Bank database corresponds to equation (2) I compared the PSE figures calculated by this method from the World Bank database with the OECD’s figures for Australia, Canada, Iceland, Japan, New Zealand, Norway, Switzerland and the US for 1986 to 2007. The correlation coefficient is 0.986.
chose the European unit of account, Ecu and Euro as ‘currency’ (which, in the strict sense, it is only since 1999) for the comparison and converted the PSE data accordingly.

Agricultural employment share

The data in Table A1 are calculated from the OECD’s Annual Labor Force Statistics database accessible via OECD.Stat. This database contains national figures for total civilian employment broken down by the three classical economic sectors agriculture (including forestry and fishing), industry and services. Moreover it has national series on civilian labor force, total labor force and total employment. The OECD provides only European Union data for its actual size (currently EU27). Hence I added up agricultural employment of the individual EU member countries. For the percentages I divided them by the total civilian employment of the same geographical unit.