

The Common Agricultural Policy v. Turkish Admission to the EU

By Erdogan Kumcu and James McClure

***Epigraph by James McClure:** Erdogan Kumcu and I were colleagues, frequent co-authors, and close personal friends (I love it that his daughters have so long called me Uncle Jim). Because cancer so suddenly struck down a highly productive scholar and educator in his prime, it is no surprise that there were and remain professional “loose-ends” of various sorts. For example, in 2005, I published “A Reply to Stearns and Borna: Are the Partially Upward Sloping Demand Models Plausible?”; this was a reply to a critique of an article that Erdogan and I had published as co-authors in 2003. The writing of this reply was bitter sweet: Bitter because I felt loss of Erdogan’s wit and insight; but sweet because the reply made it clear that a long-time professional rival of Erdogan’s had gone beyond reason in attempting to undermine the contribution of Erdogan’s and my article. (By the way, partially upward sloping demand models are ridiculously implausible, notwithstanding the claims of Stearns and Borna (2005) to the contrary.) A second “loose-end” was page proofing our co-authored article (McClure and Kumcu (2008)); it was accepted in January 23, 2004 (just a few months prior to Erdogan’s death). The subject of this article is another “loose end”: Erdogan and I had a working hypothesis that perhaps financial fallout was the real reason that the European Union (EU) repeatedly rebuffed Turkish applications for membership: More specifically, given the tariffs and subsidies emanating from the EU’s Common Agricultural Policy, and given that Turkey is a regional superstar in agricultural production & export, admitting Turkey into the EU would certainly threaten, pardon the pun, to upset the “financial applecart” of the EU. The analysis is presented below: It remains for future research to quantify its importance.*

Turkey has been denied admission into the European Union (hereafter abbreviated as: EU). A variety of explanations for Turkish brush-offs have emerged; non-financial “concerns” are the mainstay of these. For example, in 2002 a long list of countries was being considered by the EU (Cyprus, Czech Republic, Estonia, Hungary, Malta, Latvia, Lithuania, Slovakia, and Slovenia); Turkey was noticeably absent. According to the *Wall Street Journal* (10/17/02, p. A18): “The Commission, the EU’s executive arm, said Turkey didn’t meet the ‘political’ criteria even to get a possible date to start talks on membership.”

This *WSJ* article went on to explain that Turkey had, contrary to the impression left by the *EU* commission, taken a range of steps at “political reform” such as abolishing the death penalty, granting Kurds greater freedoms of speech, and making “substantial” human rights improvements; and the article went on to speculate that: “The real problem here is that many Europeans don’t want Turkey in their club at all. Their view is that Europe is for Christians . . .”

It struck us as odd that the world renowned financial paper, the *Wall Street Journal*, said nothing about the financial consequences of admitting Turkey to the *EU*; again, the *WSJ* article concluded that the “real problem” was religion rather than the litany of other non-financial “concerns”, “problems”, and “criteria” it discussed. This silence on the financial ramifications of Turkish admission is so peculiar and palpable precisely because of the fondness of the *Wall Street Journal* for the economic insight that: “When they tell you it’s not about the money, it’s about the money!” This insight in mind, we formulated this working hypothesis: Turkish admission would pose financial challenges to the *EU* due to tariffs and subsidies attending its Common Agricultural Policy.

I. Turkish Admission vs. CAP Finances: A Love Story Not

The *EU*’s common agricultural policy subsidizes the export of some agricultural goods and imposes tariffs upon the importation of other agricultural goods. From standard demand/supply analytics we will see that admitting Turkey would: 1) reduce tariff revenue inflows to the *EU*; and 2) increase *EU* subsidy payments to farmers.

A. Admitting Turkey would reduce *EU* tariff revenues

The impact of Turkish admission upon the *EU*’s tariff revenue can be easily explained via the demand/supply diagram below:

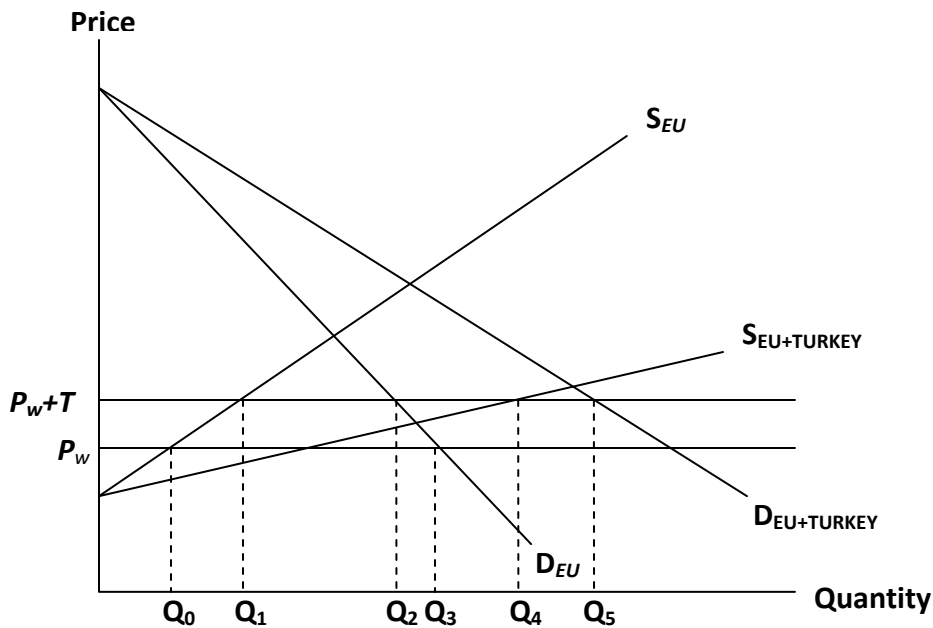


FIGURE 1: EU Tariff Revenues vs. Turkish Admission

The quantity and price in the above pertain to some agricultural good that is imported into the *EU*; it is assumed in the above that the good could be imported (from Turkey and other countries) at the world price of P_w , but the *EU* has a tariff on it of T per unit, so that $P_w + T$ becomes the tariff-inclusive price of the imported good. In Figure 1 we see two demand curves and two supply curves for the *EU*: Without Turkey, as things stand currently, demand and supply for the *EU* are labeled D_{EU} and S_{EU} . Given this demand and supply, and the tariff, the *EU* imports $(Q_3 - Q_1)$ units, collecting total tariff revenue of $T \times (Q_3 - Q_1)$.

Things would change if Turkey were made an *EU* member. Because the assumption of this example is that the *EU* was importing this good from Turkey, Turkish admission will add more to *EU* supply than would be added to *EU* demand: In Figure 1, the *EU* supply and demand curves both shift to rightward to $S_{EU+TURKEY}$ and $D_{EU+TURKEY}$, but importantly (because Turkey

is a net producer of this good) with the shift in supply exceeding the shift in demand. (Look horizontally across from P_{W+T} : Notice that $(Q_4 - Q_1)$, which is the change in quantity supplied, is clearly greater than $(Q_5 - Q_2)$, which is the change in the quantity demanded.) For our purposes, the key change is the decline in *EU* tariff revenue. If Turkey were a member of the Union, imports of this good would fall from $(Q_3 - Q_1)$ units to $(Q_5 - Q_4)$ units, thereby cutting *EU* tariff revenue from $T \times (Q_3 - Q_1)$ to $T \times (Q_5 - Q_4)$.

B. Admitting Turkey implies increased *EU* subsidy expenditures

The impact of Turkish admission upon the *EU*'s subsidy expenditures can easily be explained using the demand/supply diagram below:

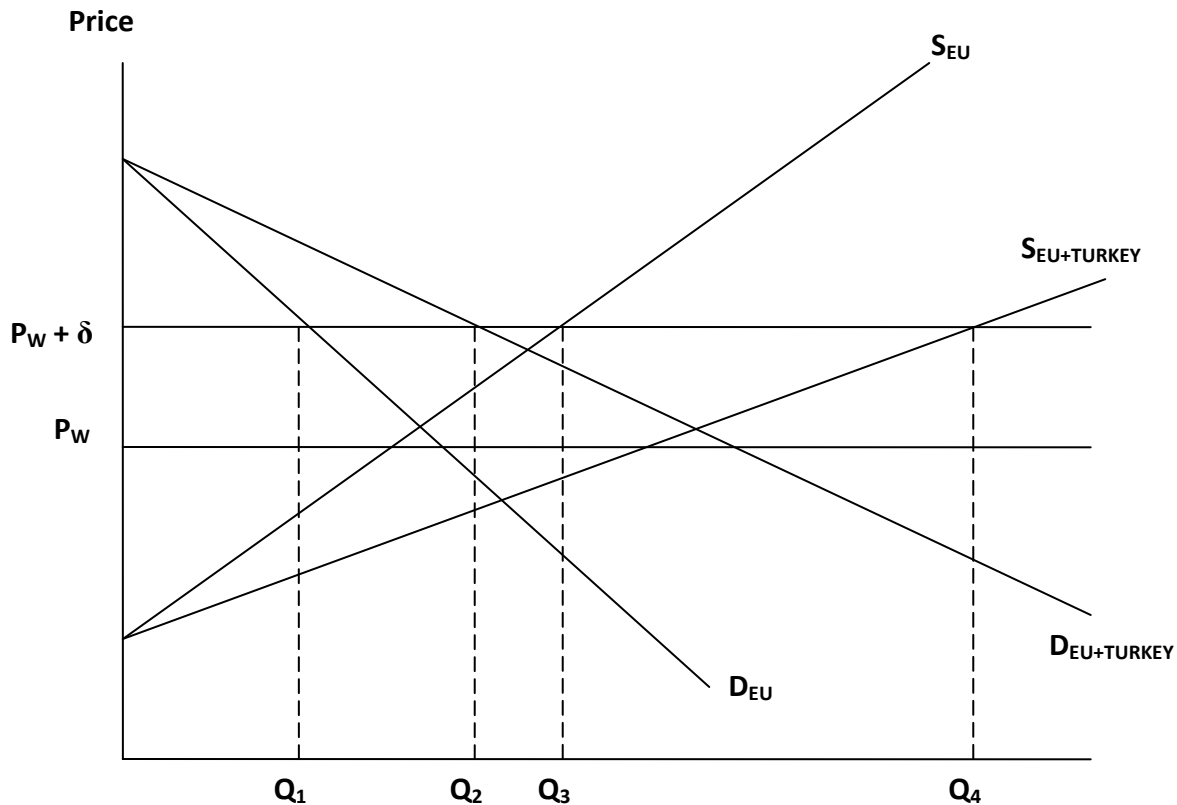


FIGURE 2: *EU* Subsidies and Turkish Admission

In Figure 2, we show the impact of a simple export subsidy of δ per unit exported. We begin with the demand and supply curves that do not include Turkey as an EU member: Demand is labeled D_{EU} and supply is S_{EU} . Given this type of subsidy, (Q_3-Q_1) units are exported; this is because putting the *EU* on the hook financially for a payment of $\delta \times (Q_3-Q_1)$ to *EU* farmers.

Things change in this analysis if we imagine Turkey becoming an *EU* member. Because Turkey is the leading exporter of agricultural products to near Asia and northern Africa, it must be assumed that adding Turkey to the EU will shift the supply shown in Figure 2 to the right by a larger amount than the rightward shift in demand induced by Turkish admission. The demand and supply curves have been shifted in this way from D_{EU} and S_{EU} to $D_{EU+TURKEY}$ and $S_{EU+TURKEY}$: Sighting horizontally from the $P_W + \delta$ price level notice that Turkish admission has increased quantity supplied at this price level by (Q_4-Q_3) , but raised quantity demanded at this price level by only (Q_2-Q_1) .

For the purposes of illustrating the impact of Turkish accession to EU finances, what is important here is what happens to the amount of exports that will have to be subsidized. As show in Figure 2, again based logically on the facts about Turkey's agricultural exporting prowess, EU exports will rise: They increase from Given the shifts in demand and supply, the implication regarding EU financing is straightforward: EU payments of farm subsidies rise from being (Q_3-Q_1) before Turkish admission to (Q_4-Q_2) after Turkey becomes a member. With an export subsidy of δ per unit exported, EU payments obviously rise from $\delta \times (Q_3-Q_1)$ to $\delta \times (Q_4-Q_2)$.

II. Conclusions

Governmental interferences with market process often reduce wealth creation by turning circumstances that would naturally foster cooperation between diverse peoples into those that instead foster division and bitterness. Since as early as 1963, Turkish applications to join the *EU* “club” have been rebuffed via various and sundry non-financial rationales, explanations, excuses and conjectures: Religion, human rights, and political criteria are examples that have been highlighted in the *Wall Street Journal*. This article suggests that “following the money” might provide an important financial explanation. Straightforward demand/supply analyses show that admission of Turkey, a regional superstar in agricultural production and exports, would pose financial challenges to the *EU* due to its Common Agricultural Policy that interferes with free market process with tariffs and subsidies. (These tariffs and subsidies are a governmentally created Frankenstein; they grossly pervert the market processes that would naturally give rise to ever greater cooperation between the Turkish people and other Europeans. Such monstrous political transmogrifications of economic freedom make all of Europe, Turkey included, poorer.)

As noted in the epigraph, this article presents a working hypothesis developed by Kumcu and McClure. Professor Kumcu died before it could be empirically assessed. We have lighted a torch to cast a clearer light upon a historic opportunity that has long been eschewed by the EU; it is hoped that the torch will be carried farther still via empirical assessments that can only emerge from future research.

References

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