

The Political Economy of Agricultural Protection: Europe in the 19th and 20th Century

Swinnen Johan F.M.¹

¹ LICOS Centre for Institutions and Economic Performance
University of Leuven (KUL)

Abstract—Important changes took place in agricultural policies in Europe in the 19th and 20th century. The dramatic nature of the changes are illustrated by two years, a century apart: 1860 and 1960. In the 1860s European nations agree on a series of trade agreements which spread free trade across the continent. In the 1960s European nations conclude an international agreement which spreads heavy government intervention and protection against imports across the continent. This paper reviews the nature and the causes of these dramatic changes in agricultural and trade policies, from the beginning of the 19th century to the second half of the 20th century, when agricultural policies are integrated in (what is to become) the European Union.

Keywords— Political Economy, Agricultural Policy, Europe, Historical Perspective.

I. INTRODUCTION AND SUMMARY¹

European countries spend more than fifty billions of euro annually on subsidizing their farmers. Over the past decades, European farmers have been protected against imports from other countries by import tariffs and other policies. This is not only the case in countries belonging to the European Union (EU), but also in countries such as Norway and Switzerland who have highly protected agricultural sectors. The most important form of government intervention in European agricultural markets is undoubtedly the Common Agricultural Policy (CAP) of the EU. While the EU has introduced several reforms of the CAP over the past decade, the introduction of the CAP in 1968 installed a highly protectionist and distortive system of government intervention in agricultural markets across a large part of the continent.

How things had changed in a century. Exactly a century before the introduction of the CAP, Europe

was characterized by free trade in agricultural and food products. The abolishment of the Corn Laws in 1848 signaled the end of import protection in England and the English-French trade agreement of 1860 was the start of a series of trade agreements across Europe, effectively removing most trade constraints in agricultural markets.

These contrasting observations beg the questions: how and when did this change in policy occur? And why? Which events triggered these dramatic changes in policy preferences in Europe over the course of a century and what were the fundamental causes that made them possible? These are the questions that this paper tries to answer.

The methodology used in our analysis is a combination of qualitative argumentation and quantitative analysis. We have collected long-run data and calculated policy indicators and structural variables. The paper presents indicators of agricultural protection and various explanatory variables for several European countries, including France, UK, Germany, Belgium, the Netherlands, Finland, and Sweden. Data are collected at commodity level (eg protection indicators), at sector level (eg incomes; value added; etc) or at country level (eg political institutions; electoral rules; etc). The paper uses these indicators to document changes in agricultural policies and relates the indicators with a qualitative discussion of the factors behind the changes (such as political and policy changes).

A key element in the paper is how institutional changes have affected government decision-making on agricultural protection. Over the long period analyzed there were important institutional changes in the political system, such as changes in voting rights. There is a burgeoning literature on the impact of political institutions on economic performance (e.g. Acemoglu and Robinson, 2006; North, 1991; Persson

1. For the full version of the paper, please, contact the author.

and Tabellini, 2000; Przeworski and Limongi, 1993). The impact of political systems on trade policy has been the subject of a series of theoretical and econometric studies (e.g. Beghin and Kherallah, 1994; Beghin et al. 1996; Dutt and Mitra, 2005; Grossmann and Helpman, 2005; Olper 2001; Swinnen et al. 2001). However most of these studies focus on cross-section data and there is relatively little insights from long run studies on the historical relationship between these political systems and trade protection. Our paper will attempt to make a contribution in this field.

Another important part of the analysis is how the the changing role of agriculture and food in the economy with economic development affect the costs and benefits of protection – and thereby the political equilibria. Changes in the structure of the economy affect the distribution and the size of political costs and benefits of agricultural protection and thus the government’s political incentives in decision-making. In Swinnen (1994, p.2) I argued that “structural changes typically coinciding with economic development induce an increase in agricultural protection” and that “the empirically observed correlation between agricultural protection and economic development is caused by a multiplicity of factors”. This is consistent with hypotheses from other political economy studies which have analyzed the impact of several of these factors and have concluded that governments adjust agricultural policies in response to changes in structural changes which affect the costs and benefits of agricultural protection for different interest groups, and their ability to organize politically and influence the government (Anderson, 1995; Anderson and Hayami, 1986; Bullock, 1992; de Gorter and Tsur, 1991; Honma and Hayami, 1986; Riethmuller and Roe, 1986; Swinnen, 1994, 1996; von Witzke, 1990)². In this paper we review evidence on European agriculture to see whether these arguments are consistent with empirical evidence and whether they can explain the growth in protection over the past century and a half.

One argument which is related to structural changes, but which shows much more dynamic volatility and historical fluctuation is the relative income situation of farmers. Both theoretical and

empirical studies show that changes in market returns will induced political activities of farmers as well as changes in political incentives for governments to intervene (de Gorter and Tsur, 1991; Gardner, 1987; Swinnen and de Gorter, 1993). From the evidence presented here it will become clear that this was a very important element in government decision-making on agricultural policies.

The period covered in this paper is from the beginning of the 19th century until the countries join the Common Agricultural Policy of the European Union – which is at the end of the 1960s for the initial members of the EU. For analyses of more recent periods, I refer to the studies by, among others, Grant (1997), Moyers and Josling (2002), Josling (2007a), Olper (1998) and Pokrivcak et al. (2006). This paper relates to other studies who have tried to document the evolution of European agricultural policy (such as Tracy, 1989 and Josling 2007b) and those that have tried to explain the variation in protection between commodities and over time (such as Anderson and Hayami, 1986; Krueger et al., 1992; Gardner 1987). Some of these studies which use long-run data (such as Gardner (1987) and Swinnen et al. (2001)) show that important insights can be gained from long run analyses in addition to studies focusing on cross-country differences.

In the next sections I will attempt to measure changes in agricultural policy and I will review economic and political changes that took place in the 19th and 20th century in Europe to try to explain what caused the agricultural policy changes themselves.

ACKNOWLEDGMENT

Paper prepared for the second stage of the World Bank project “Distortions to Agricultural Incentives”, directed by Kym Anderson and Will Martin. I thank Liesbeth Colen, Anja Crommelynck, Isabelle Lindemans, Joris Stiers, Gunilde Simeons, and Els Compernelle for assistance with the data analysis.

REFERENCES

2. See de Gorter and Swinnen (2002) for a survey.

1. Acemoglu, D. and Robinson, James A. (2006). De Facto Political Power and Institutional Persistence. *American Economic Association Papers and Proceedings* 96(2): 325-330.
2. Anderson, K. (1995). Lobbying Incentives and the Pattern of Protection in Rich and Poor Countries. *Economic Development and Cultural Change*, 43 (2): 401-23.
3. Anderson, K., and Hayami, Y. (1986). *The Political Economy of Agricultural Protection: East Asia in International Perspective*, London: Allen and Unwin.
4. Beghin J.C. and Kherallah, M. (1994). Political Institutions and International Patterns of Agricultural Protection. *The Review of Economics and Statistics*, 76(3), 482-489.
5. Beghin, J.C, Foster, W.E, Kherallah, M. (1996). Institutions and Market Distortions: International Evidence for Tobacco. *Journal of Agricultural Economics*, 47(3), 355-65.
6. Bullock, D. S. (1992). Objectives and constraints of government policy: The countercyclicality of transfers to agriculture. *American Journal of Agricultural Economics*, 74, 617-629.
7. Dutt, P. and Mitra, D. (2005). Political Ideology and Endogenous Trade Policy: An Empirical Investigation. *Review of Economic and Statistics*, 87 (1): 59-72.
8. de Gorter, H. and Tsur, Y. (1991). Explaining Price Policy Bias in Agriculture: The Calculus of Support Maximizing Politicians. *American Journal of Agricultural Economics*, 73(4), 1244-1254.
9. Gardner, B.L. (1987). Causes of US Farm Commodity Programs. *Journal of Political Economy*, 95(2), 290-310.
10. Grant, W. (1997). *The Common Agricultural Policy*, Basingstoke: Palgrave-Macmillan.
11. Grossman G.M. and Helpman, E. (2005). A Protectionist Bias in Majoritarian Politics. *The Quarterly Journal of Economics*, 120(4), 1239-1282.
12. Honma M. and Hayami, Y. (1986). Structure of agricultural protection in industrial countries. *Journal of International Economics*, 20, 115-129.
13. Josling, T., (2007a). Distortions to Agricultural Incentives in the EU. Paper prepared for the WB project.
14. Josling, T., (2007b). External Changes and CAP Reform: A Historical Perspective, in Swinnen (ed.) *The Political Economy of the Fischler Reforms of the Common Agricultural Policy*, forthcoming.
15. Moyer, W. and Josling, T. (2002). *Agricultural Policy Reform: Politics and Process in the EU and US in the 1990s*. Ashgate: Aldershot, UK.
16. Krueger, A. O., Schiff, M. and Valdes, A. (1992). *The Political Economy of Agricultural Protection in Developing Countries. A World Bank Comparative Study* (5 volumes). Baltimore: John Hopkins University Press.
17. North, D. (1991). Institutions. *The Journal of Economic Perspectives*, 5, 97-112.
18. Olper, A. (2001). Determinants of agricultural protection: the role of democracy and institutional setting. *Journal of Agricultural Economics*, 52 (2), 75-92.
19. Olper, A. (1998). Political economy determinants of agricultural protection in EU member states: an empirical investigation. *European Review of Agricultural Economics*, 24, 463-487.
20. Persson, T. and Tabellini, G. (2000). *Political economics: explaining economic policy*. The MIT Press. August 2000.
21. Pokrivcak, J., Crombez, C. and Swinnen, J. (2006). The Status Quo Bias and Reform of the Common Agricultural Policy, *European Review of Agricultural Economics*, 33(4), 562-590.
22. Przeworski A. and Limongi, F. (1993). Political Regimes and Economic Growth. *The Journal of Economic Perspectives*, 7(3), 51-69.
23. Riethmuller, P and T. Roe. (1986). Government intervention in commodity markets: The case of Japanese rice and wheat policy. *Journal of Policy Modeling*, 8, 327-349.
24. Swinnen, J. (1994). A Positive Theory of Agricultural Protection. *American Journal of Agricultural Economics*, 76, 1-14.
25. Swinnen, J. (1996). Endogenous price and trade policies in Central European agriculture. *European Review of Agricultural Economics*, 23, 133-160.
26. Swinnen, J. and de Gorter, H. (1993). Why small groups and low income sectors obtain subsidies: The 'altruist' side of a 'self-interested' government. *Economics and Politics*, 5, 285-293.
27. Swinnen, J., Banerjee, A. N., and de Gorter, H. (2001). Economic development, institutional change, and the political economy of agricultural protection An econometric study of Belgium since the 19th century. *Agricultural Economics*, 26(1), 25-43.
28. Tracy, M. (1989). *Government and Agriculture in Western Europe 1880-1988*, London: Granada.
29. von Witzke, H. (1990). Determinants of the US wheat producer support price: Do presidential elections matter?. *Public Choice*, 64: 155-165.

- Author: Johan F.M. Swinnen
- Institute: LICOS Centre for Institutions and Economic Performance, University of Leuven (KUL)
- Street: Debériotstraat 34
- City: B-300 Leuven
- Country: Belgium
- Email: Jo.Swinnen@econ.kuleuven.be