



•• associazione **Alessandro Bartola**  
studi e ricerche di economia e di politica agraria

**AN EVOLUTIONARY APPROACH  
TO RURAL DEVELOPMENT**  
*Some Lessons for the Policymaker*

Franco Sotte

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*COLLANA APPUNTI*

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## 1 Introduction

In a recent speech to the European Parliament, the President of the Commission Mr. Romano Prodi said: “The mid term review of the Common Agricultural Policy should reward [...] a further shift of resources from market support to rural development”<sup>1</sup>. This position emphasizes the recurrently expressed petitions for an anticipated revision before the end of the period of validity of *Agenda 2000* in year 2006 and the widening, together with a revision, of the present rural development package. This view is shared and has been recurrently reaffirmed by the Commissioner for Agriculture, Mr. Franz Fischler.

For these reasons, the choices and experiences Europe gets now and in the near future with all rural development policies will shape up for a long time European development. Development of rural areas is in fact becoming a major issue for several European priorities: regional cohesion, environment valorisation, employment, and market liberalisation. Subsequently the shift from the present CAP towards a rural development policy appears to be a fundamental milestone in the political construction of the Union: it will influence the structural policies, as well as the Eastern enlargement of the EU and the WTO negotiations.

The role of scientific research in this perspective is evidently crucial, and actually rural development has become one of the major topics in agricultural economics, as well as in other social sciences. But two main points of weakness still persist.

The first relate to the lack of a theoretical foundation for rural development and to the still insufficient analysis of the relationship between rural development and general development.

The second concerns the definition of a comprehensive rural development policy to which the present second pillar of the CAP (together with all the other policies directed to rural areas) should be compared and evaluated and new institutional assets and tools should be designed.

The scope of this paper is then to orient future research and action, assessing the present situation and figuring out the roads for future developments, the methodological references, and the needed competence. This paper is aimed as well at presenting an evolutionary vision of the rural development experience, derived by our analysis, based on the Italian experience of rural development: in particular of the so called NEC (North-East-Centre) Regions which have experienced a very rapid growth during

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<sup>1</sup> Speech by Mr. Romano Prodi, President of the European Commission A Sustainable Europe for a Better World: A European Union Strategy for Sustainable Development. The Commission Proposal to the Gothenburg European Council, European Parliament, Strasbourg, 15 May 2001.

the last few decades, but also hoping that it could be useful for the analysis in other Countries and in particular for the incoming Countries of the EU, such as Slovenia.

## 2 An evolutionary analysis framework

### 2.1 *The traditional “agrarian rurality”*

Looking at the etymological origins and to Dictionary definitions, the world “rural” is strongly and unambiguously linked to agriculture<sup>2</sup>. Frequently used as a synonymous of “agricultural”, “rural” has a more comprehensive meaning: if “agriculture” is used more for the productive activity of farming and breeding, “rural” also includes society and territory. But the similarity is so evident that for a long time it has been the share of agriculture (principally in terms of the rate of employment), to measure the degree of rurality and to separate rural from urban areas.

Going back some decades ago to the foundation of the CAP, the role of agriculture in rural areas was furthermore so overwhelming, as to condition the performances of all other coexisting activities and rural welfare as a whole. We have classified rurality at that time as an “*agrarian rurality*” for its sectorial aspect. It affected the sharp territorial separation between urban and rural.

The weakness of agriculture in traditional economies, especially when a rapid economic development based on industry and services takes place, together with the assumption of the superior role of the centre, were the theoretical foundations of a dualistic interpretation of the development process based on space hierarchy, agglomeration economies and tayloristic paradigms in the theory of the industrial enterprise. Rural areas can be consequently negatively defined. Rural is “*not urban*”, rural is the “*white between the dots*”, and consequently the poor, marginal and disadvantaged. Urban territories, driven by the concentration of urbanisation-localisation-scale economies, are affluent and able to have a high rate of growth. Rural areas, correspondingly, are where lower incomes, higher unemployment, social distress and emigration are mainly located.

Following this approach, the role of rural areas in general economic development is passively defined as well: granting food security to the

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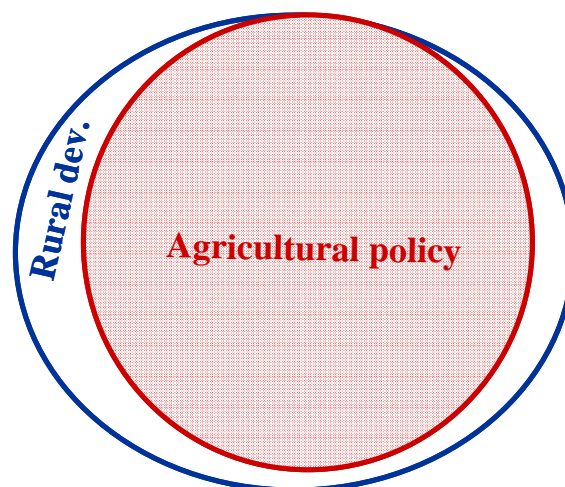
<sup>2</sup> Here are some dictionary definitions: Collins-Cobuild: “far away from large towns or cities”; Oxford Advanced Learner’s Dictionary: “of, in or suggesting the countryside or agriculture”; Concise Oxford Dictionary: “suggesting the country (opp. urban), pastoral, agricultural”; Petit Larousse: “qui concerne les paysans, la campagne”; Warhig Deutsches Wörterbuch: “ländlich, bäuerlich”; Devoto-Oli: “relativo alla campagna (spesso contrapposto a urbano)”; Nuovo Zingarelli ed Enciclopedia Zanichelli: “Della campagna, che riguarda la campagna. Chi abita, lavora nella campagna”.

rising urban centres (in terms of enough food for an increasing population), supporting the growing industry with a low salary labour force as well as cheap wage-goods. As a result, the rural-agricultural policy (supported by a strong political representation of farmers through their unions and parties) has a sectorial definition and is aimed at accomplishing two tasks: sustaining quantitative production through protectionist measures and high price levels (as the CAP did) concentrating thus the highest support on the largest farms, on commodity products and rising rents, as well as compensating rural poverty by redistributive policies (in term of a wide range of measures characterised for unselective expenditure or tax exemptions generalised for all the components of the agricultural sector).

In the agricultural rurality model there is a clear trade-off, up to an identification, between the sectorial and the territorial dimension of development. Given the weight of agriculture in rural areas in terms of employment, GDP etc., rural development depends on agricultural development, or, at least, the capacity of rural territories to resist the urban hegemony which depends on the high capacity of representation of agricultural unions and NGOs at political level.

This implicitly justifies the enormous absolute and relative weight (in terms of budget expenditure and tax exemptions) recognized to agricultural policy (as in the CAP). Agricultural policy is given not only an economic function (as in industrial policy for instance), but also other functions: i.e. a social function of support to the rural family and society and a territorial function to sustain environmental and territorial equilibrium. In fig. 1 the quality of life in rural areas is assumed to be basically dependent on agricultural policy (on its transfers and its benefits) and that all the other policies play a secondary role. They are in fact designed and directed for serving the urban areas and their needs.

*Fig. 1 – The overwhelming weight of agricultural policy in the “agricultural rurality” model*



In a sense, the sectorial agricultural policy is given more than a sectorial role: that of redistribution between territories and social support. Rural development and the related management of rural territory are correspondingly left to agricultural social scientists as a sectorial problem, of relatively little relevance for the rest of the economy and society.

All other policies (concerning industry, tourism, transport, school, health, etc.) are centrally defined and previously designed to fulfil urban needs, taking little care of rural areas, assumed a priori to be inevitably penalised in the short/medium term and whose development chances were supposed to rely only on agricultural policy support and, if that were not enough, on emigration and, in less remote areas, in leakage effects from the cities.

Even if we can criticise its foundations, the “agrarian rurality” model was based on a comprehensive economic theory and the design of the CAP, together with the related agricultural policies at Member State level, which can be judged as strongly as coherent with the social contract between farmers and society implicit within this model which was substantially stated into art. 39 of the Treaty of Rome.

A synthetic representation of the relevant aspects of the agrarian rurality model compared to the other two models which are going to be presented in the following two paragraphs can be found in table 1

*Table 1 – The main characters of the three rurality models*

	<b>“Agrarian” Rurality</b>	<b>“Industrial” Rurality</b>	<b>“Post-industrial” Rurality</b>
<i>Rurality measurement</i>	Share of agricultural employment	Demographic density	Territorial, economic and social polymorphism
<i>Main economic problem</i>	GDP per-capite growth Rural-urban dualism	Economic growth of the original remote areas	Territorial re-equilibrium Territorial and international integration
<i>Key sector</i>	Agriculture	Industry	Services
<i>Main focus of policies</i>	Efficiency Income redistribution	Infrastructure and external economies for industrial growth	Territorial re-equilibrium of long-term development
<i>Objectives of agricultural policy</i>	Food supply safety (in quantitative terms) Economic and social equilibrium Political consensus; Building the UE	Social stability Industrial capital formation Production factors mobilisation (labour, skills, land, savings, etc.)	Food supply safety (in qualitative terms) Common goods and services production Maintaining polymorphism
<i>Proper agricultural policy</i>	Market support Indiscriminate support Intensive production	Market support/Payments Support to labour substitution Extensive production Supply control	Rural development incentives Direct payments for environmental, landscape, cultural services Market stabilisation Transitory adjustment support

## 2.2 *The “industrial rurality” model*

Nowadays in the EU almost all rural areas have experienced a decline in the importance of agriculture. Few of them can still be defined as dependent on agriculture. Things are relatively different in the CEECs where agriculture still plays a higher role in several regions, but even there agriculture has been overtaken about anywhere in terms of employment and income by industry and especially services.

As far as the agricultural rate of employment has fallen, the “agrarian rurality” model has consequently lost its foundation. This is the reason why other indicators of rurality have been explored. The OECD solution, based on population density, has been broadly accepted<sup>3</sup>.

But other key elements of the “agrarian rurality” model lost consistency. At first the assumption of the unavoidable destiny of rural areas towards socio-economic delay fell. Despite remoteness, dispersion and small return to scale due to an economic system based on small-medium industrial enterprises, rural economy and society provide, in fact, a wide range of favourable conditions for industrial start-up and growth: economic polymorphism, social mobility and fluidity, co-operative behaviour, derived from the structure of the enlarged family and of rural institutions.

They have been especially solicited when, as in recent decades in Europe, the demand of consumers shifted from standardised products to a widely diversified range of personalised and niche products and when the technological change gave the possibility to small-medium enterprises to reach (through external network economies) levels of competitiveness previously attainable only by large scale enterprises. In some recent Italian research we have studied this original kind of evolution, driven by the industrial take-off. We named that model the “industrial rurality” model.

Italy is, in fact, a good study case for understanding the main foundations of industrial success in rural areas and for analysing as well the evolutionary implications of such a process on rural society and on agriculture. By the Sixties onwards, several Italian regions located in Northern-Eastern and Central part of the Country, which were characterised by a rural economy and society frequently based on sharecropping, far away from the centres of traditional industrial localisation and growth, which experienced a rapid economic dynamism based on industrial districts networks and strictly rooted in rurality. As several Adriatic regions (Friuli V.G., Veneto, Romagna, Marche as well as Abruzzo and Molise) were sooner or later broadly involved in such an experience, some envisaged an “Adriatic path of development”

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<sup>3</sup> OECD (1994), *Creating rural indicators for shaping territorial policy*, Paris. OECD (1996), *Territorial Indicators of Employment. Focusing on Rural Development*, Paris.

This evolution of previous rural areas towards modern integrated local systems of small-medium enterprises was so relevant to move the barycentre of the Italian economy and characterise the present Italian peculiar specialisation on manufacture, based on products “*for the body*” (shoes, textile, hats, glasses, etc.) or “*for the house*” (furniture, ceramics, tiles, curtains, etc.) and tourism. This is the so called “*made in Italy system*” which is linked to fashion, product differentiation and personalisation, continuous change and innovation.

Despite the Italian industrial “dwarfism” (in 1990, the small-medium enterprises quota with less than 10 employed was 23,3% compared to 7,4% in Germany, 8,1% in France, 7,2% in the UK, only 3,0% in the USA), the competitiveness of the Italian economy is based on its more than 200 manufacture local systems based on small-medium enterprises and previously considered handicapped for their rural origin .

Only after the concepts of transaction costs, scope economies, human and social capital, networks, governance, and the contribution of institutional and evolutionary economics were introduced into the economic theory, the lesson derived from the observed empirical change found an explanation. The Italian case of the take-off of the NEC regions, as well as similar experiences in rural areas of other Countries, was not any more taken into consideration as an unexplainable hornet: which flies against any theoretical explanation. But if the rural foundations of the industrial take-off had an explanation rooted in the Marshallian lesson on industrial districts and in the Shumpeterian theory of the enterprise and the role of the entrepreneur, less analysis has been dedicated to understand the feed-back effects of the change on the rural characters of the economy and society and on the distributive effects of socio-economic change over the territory and its values.

Today, forty years or more after the industrial districts have taken off in some Italian rural areas, when their experience has reached a stage of maturity, such an evaluation is possible and some lessons can be very useful for other rural regions still lying in an “agrarian rurality” state or which, as namely Slovenia, have recently entered into an “industrial rurality” scenario.

The first refers to the conditions of development. Economic development based on industrial growth is actually possible in rural areas, as the case of Italian industrial districts demonstrate, but if it is only market driven, without a responsible territorial policy, its distribution on the territory, far from being homogeneous, tends to concentrate in some parts of rural areas and a new dualism within the rural areas takes place.

The most dynamic part of the territory specialises itself in the core business of the industrial district, gaining in that sense competitiveness for



its main product in the global market, but losing capacity to adapt to new competitive scenarios, while factor costs (i.e.: labour costs) and transaction costs rise. The rest of the territory (such as that of the mountainous regions or in less favourable locations and poorly served by infrastructures) is weakened by de-population (especially of the young), and its endowments of rurality are consumed (exploited) in such a way that its capacity to produce an autonomous and original take-off fade away. The result in the long run is that only some specific rural areas succeed in actually taking-off and developing a self-sustained capacity to compete in the global market, while others fail.

The second result refers to agriculture. After the long supposed unavoidable and sad destiny of marginalisation, only compensated by price support and redistributive policies, the call of the possible rescue with industrialisation sang out also for farmers. The “refusal of the farm” accompanied the revenge of the periphery centred on industrial development. So a new dualism took place in periphery: a new migration from the countryside to the near winning industrial district centres took place, creating the concentration of economic activities and residence. The process was also favoured by a re-allocation of public services (hospitals, schools, administrative services etc.) from the whole territory to the successful centres.

In the “industrial rurality” model, agriculture was newly attributed a passive role: 1) contributing to social and economic stability, 2) transferring labour force, capital and land to industrial activities, and, 3) last but not least, providing entrepreneurial skills for the still weak industry. Agriculture was thus pushed to give up the traditional labour-intensive and complex poli-cultural, integrated organisation, and adopt for itself an “industrial” setting consisting of: 1) capital intensive forms of production, 2) labour saving techniques, 3) specialisation up to monoculture, 4) standardisation both of processes and products, 5) simplification, so that in some cases even land (the crucial factor of production for agriculture) appears to be superfluous, as e.g.: in factory farming.

Serving this shift towards industrialisation of agriculture was the role of agricultural policies in the “industrial” rurality scenario. This was accomplished by the CAP of the 80s and confirmed by the Mac Sharry reform as well as the “first pillar” of Agenda 2000. Here are the common characteristics of all these policies:

1. Concentrating and increasing price support on standardised commodities: cereals, oilseed, sugar beet, meat and milk.
2. Favouring the disconnection between land cultivation and animal breeding.

3. Gradually weakening the connection between the specific territorial characters and endowments and agriculture, and homologising all regional different agricultural typologies to the prevalent model of production: that of coming from the opposite coast of the Atlantic.
4. Narrowing the space of the farm both upstream and downstream the food-chain supporting the use of standard chemical and mechanical inputs and providing little juridical and economic support to quality products valorisation and marketing.
5. Introducing and reinforcing the supply control measures with no care for quality and the environment.
6. Leaving the destiny of traditional labour intensive high quality as well as value added productions (such as fruit and vegetables) to market forces without a structural and commercial policy (as compared, in terms of budget, to market support).
7. Favouring the ageing of rural society and farmers in particular, and correspondingly hampering the turn-over with young farmers and the entrance of new entrepreneurs into the farm business<sup>4</sup>.

“Farm the contribution!” has been the message heard in practice by farmers after the Mac Sharry reform. The same message has been delivered by Agenda 2000. Despite the introduction of some agro-environmental measures and obligations, only little support is dedicated to valorise the common goods of environment, cultural landscape, biodiversity, erosion and flood prevention and fertility conservation.

As far as the “agrarian rurality” model was backed by a consistent economic theory, the “industrial rurality” model has firstly been the result of the change registered in some specific rural areas, such as the previously rural areas that experienced in Italy industrial district growth. The trigger for the success of this model has not been a coherent policy. The perception itself of the extraordinary economic dynamism and the originality of the development experience came late even from economic research<sup>5</sup>. And, in fact that case of “industrial rurality” sounded as a kind of factual demonstration of the insufficiency of the previous theory. The “hornet” that on the light of the traditional economic theory had not the condition for flying, flew for a long time without a consistent theoretical explanation. And when, much later, the economists as well as other social scientists

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<sup>4</sup> A recent research demonstrates the existence of a strong correlation between the farmers age and the concentration of the coupled support to products.

<sup>5</sup> The start-up of industrial districts in the NEC can be dated to the early Sixties, but the first acknowledgement of its originality and irreversibility by economic research and specialised reviews did not appear before the mid Seventies.

noticed its flight, the major result it was able to attain, concerning rural areas, was a list of criticisms towards the old theory, but not a new consistent one. This is the reason why even nowadays the mainstream of economics still maintains a notable scepticism towards local development and in general all territorially related branches of the social sciences.

### 2.3 *The “post-industrial rurality” model*

Many elements suggest that a new “post-industrial rurality” scenario is emerging. This change is first due to the new role society is asking rural areas to play. The environmental conservation and protection concerns as well as the consumer’s anxiety about food safety and quality are considered all over Europe as fundamental priorities in the policy agenda.

The change is also due to technological progress: improvements in transport and communication systems fostered by new physical and virtual connections which have weakened the traditional penalisation of rural areas due to remoteness and isolation, while a new demand for residence, especially in rural territories around the metropolitan areas, as well as in high natural value locations and tourist sites, have risen.

As a result, rural areas have registered an original and growing market demand generated by consumer preference. At the same time the citizens ask for more comprehensive and effective public action in defence of common goods and for new services related to the environment, landscape and quality of life.

Two main elements characterise the new scenario. The first is the territorial dimension of rurality, which means that now the distinctive character of rural areas is integration in general sense.

- Integration between economic activities whereas neither agriculture nor industry have any more prevalence as in the past scenarios, in fact services (either to the “enterprise” as well as to the “person” and the “family”) have generally grown so much as to by large overtake the threshold of 50% of the total employment;
- integration between nature and society;
- integration between rural and urban territories and societies,
- integration between local and global markets, and so on.

A new measure for this model of rurality should be chosen to represent this very complex and polymorphic character of rurality<sup>6</sup>.

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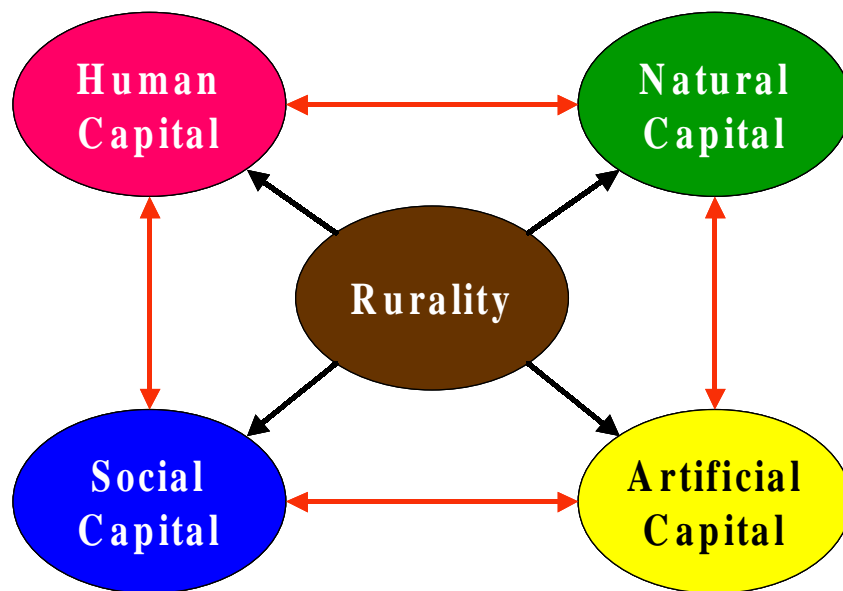
<sup>6</sup> The OECD measure of rurality based on population density appears in this view obsolete: a region specialised for a very speculative, extensive, labour saving and mono-cultural agriculture, where the farmers commute daily from the relatively far city can turn out to be highly rural, even if all rural institutions and societies have dissolved.

The second key aspect of rurality is diversity. Diversity is the keyword of rural development. It is in opposition to the homologation of urban society and to the standardised living and consumption models of a globalised world. Rural territories constitute, this is obvious, a fundamental reserve of biodiversity, cultural landscape, historic heritage, and agricultural tradition: in a word, of natural capital. From the socio-economic point of view, they can be also reserves of human and social capital: flexibility, capacity to adapt and catch the new opportunities the global market can offer, uniqueness, as the Italian industrial districts story can show. This means that a fundamental role for the development of RA should be played by non-agricultural small-medium enterprises (in industry and the tertiary sector) and that specific policies should be designed to help their genesis and their development. But the difference in the “industrial rurality” model is that here rurality appears as a value because of its complexity and polymorphism, whose conservation and valorisation became the main objectives of rural development policies.

The role of agriculture in this scenario should be consequently redefined. The Agenda 2000’s intuitive commitment for a “*European model of agriculture*” should be explained here with reference to all its diversified forms. Opposed to the mono-functional format of the “industrial rurality” model (typical of the American specialised, industrialised and extensive agriculture), the “*European model of agriculture*” is oriented towards a multifunctional agriculture, where particular effort is dedicated to serve the consumer demand of quality and safe food. And this copes with a wide range of traditional and new roles for farmers: transformation and marketing of food products, handicrafts, agro-tourism, sport, recreation and leisure, environmental care, education, health care, etc.

The shift towards such a complex and varied role of agriculture and the redefinition of rural development and welfare as an integrated and diversified participation of all sectors opens up a new role for the market for rural areas as well as a demand for new policies.

Fig. 2 – The interrelation between the four types of capital in rural development



From a complex and evolutionary perspective, development of rural areas relies on the integration between four types of capital: natural capital, social capital, human capital and artificial capital<sup>7</sup>.

- Natural capital is made up of natural resources, biodiversity, fertility, water, hydrological equilibrium etc.
- Social capital consists of formal and informal institutions, rules and customs, rights, cultural heritage, participation and organisational capacity etc.
- Human capital is represented by knowledge, experience, entrepreneurial skills, expectations, dignity, age, health etc.
- Artificial capital comprises plant and machinery, level and distribution of income, infrastructures etc.

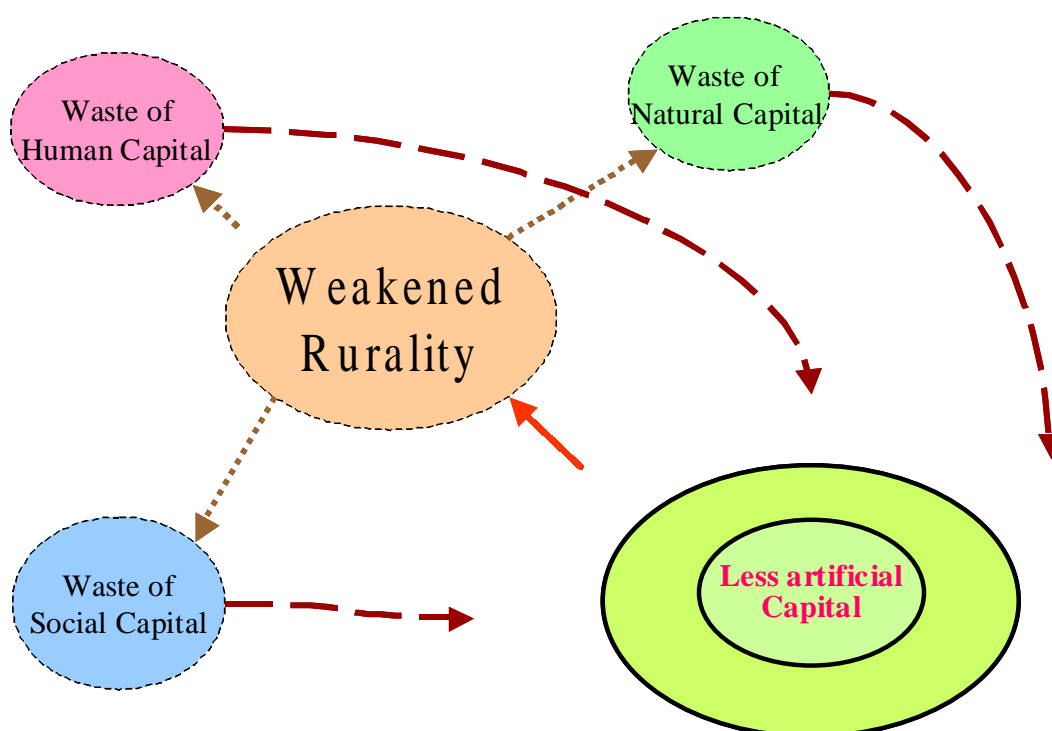
These four types of capital are strongly intertwined. On the quality of this interrelation relies local development, as well as landscape value, quality of life and, in short, the attractiveness and competitiveness of a local system.

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<sup>7</sup> A. Arzeni, R. Esposti, F. Sotte (Ed.s) (2001), *Agricoltura e Natura*, Associazione Alessandro Bartola, Franco Angeli, Milano

If the local system is driven exclusively by the objective of artificial capital maximisation, not caring about side effects on the other types of capital (direct or indirect), the balance can be lost. A weakened rurality loses its resilience, its capacity to adapt after-shocks or to capture new business opportunities. A gradual waste of natural, social and human capital is the direct effect. Ultimately rural areas lose their capacity to participate autonomously in the overall development and part of the artificial capital itself is lost in the long run for paying the costs of losing the equilibrium: such as after floods, BSE and the foot and mouth disease.

*Fig. 3 – The effect of an unbalanced rural development*



Rural development is then first a long-term strategy, aimed at preserving the complexity and the balance between the components, and integrating rural areas in a sustainable development process. From the socio-economic point of view, this means providing non agricultural functions and employment in rural areas, fostering exchanges between sectors and territories, and thus breaking both isolation and mono-functional agricultural specialisation. Collective action should be enhanced, aimed at reducing transaction costs and facilitating individual initiatives.

Besides, as general development takes place and society evolves, rural areas are asked to adjust correspondingly. Food security for instance has passed from the quantitative definition of the past to a qualitative one, while other roles of rural areas are capturing the interest (and the willingness to

pay) of the consumer and the tax payer. Further, rural areas can be a fundamental reserve of low factor costs, low transaction costs, scope economies, flexibility and a capacity to adapt to new business opportunities.

Co-evolution of rural with urban areas on the basis of a common strategy is then a fundamental condition for fostering competitiveness in a globalised economy. This issue is crucial in the European Union enlargement process, considering the largest reserve of rurality in Central Eastern European Countries, compared to most urban western ones. Rural development policy is consequently defined as an integrated process of territorial programming and management. It should be inter-sectorial and interdisciplinary.

A new hierarchical distribution of responsibilities is then required, as well as a new integration between top-down and bottom-up approaches, and between government and governance. The analysis of the experiences of objective 1 and 5B as well as of LEADER I and II can prove to be very useful in this respect. It brings to evidence the importance to narrow the distance that presently separates the territorial policies of the EU from the sectorial agricultural one<sup>8</sup>.

It is evident that a “learning by doing” approach is more suitable for such a purpose. Complexity and variability require very flexible policy solutions which should be rooted in a very efficient and updated monitoring and evaluation feedback. In this respect a basic scientific problem concerns the necessary improvement in statistical information available at a territorial level. New methodologies should be provided as well.

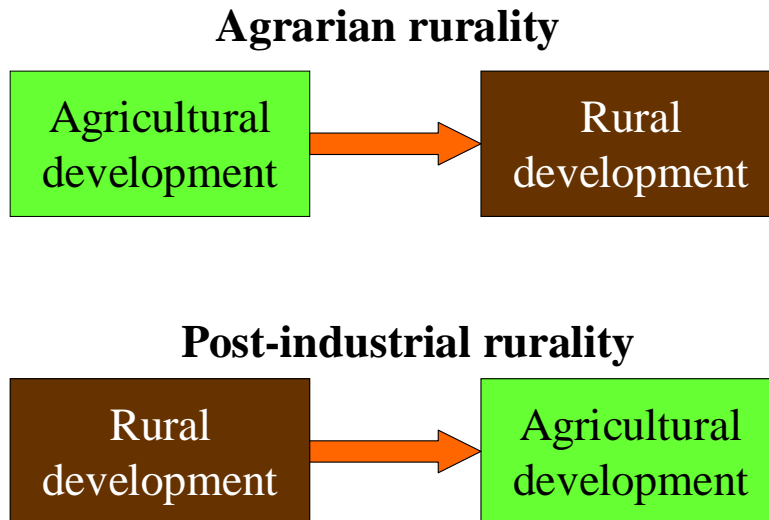
As rurality evolves over time from a sectorial definition to a territorial one, the role of agriculture in rural development changes. In the traditional agrarian rurality, agriculture was dominant and the overall welfare of rural areas was directly influenced. For that reason agricultural policy was often attributed more general functions than those of a sectorial policy, such as social and territorial.

The situation now is generally reversed. The perspective in the long run for a sustainable agriculture is no longer possible without a parallel (earlier in some respects) and development of the overall rural areas. The implication in terms of policy is that if, in the past, agricultural policy was supposed to cover most rural development policy expectations, today, other policies are necessary conditions for a sustainable development in rural areas.

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<sup>8</sup> E. Saraceno (2002), *Rural Development Policies and the Second Pillar of the Common Agricultural Policy*, ARL/DATAR Workshop on “Desirable evolution of the CAP: a contribution”, 23 September, Brussels.

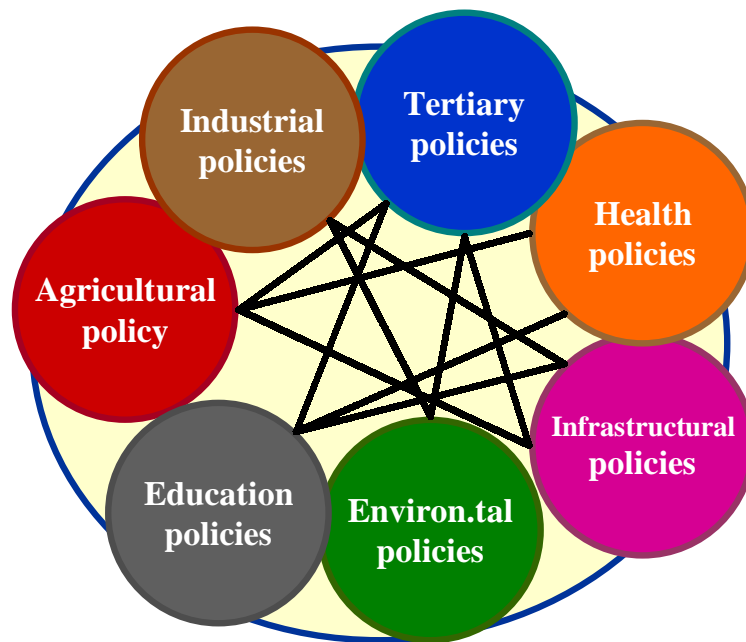
Fig. 4 – The reversed relationship between sectorial and territorial development in rural areas



All other policies should be adapted to the new roles of economic sectors and to the new definition of socio-economic development for rural areas. *Rural development programs*, if territorially defined, largely overtakes the agricultural dimension and depends on industrial and tertiary policies, on infra-structural policies, on quantity and quality of services to society (education services, health care, etc.) and on environmental and territorial planning.

Fig. 5 - The inter-sectorial definition of a territorial rural development program





Rural Development Programs should outline, first of all, a long term strategy of development of the rural areas and then consider these policies altogether taking care, in particular, of the interlinkages between them. The subsidiarity principle should orient the distribution of responsibilities between different levels of government.

### **3 The unsatisfactory approach of the CAP to rural development**

#### *3.1 The contradiction between the CAP and a comprehensive rural development policy*

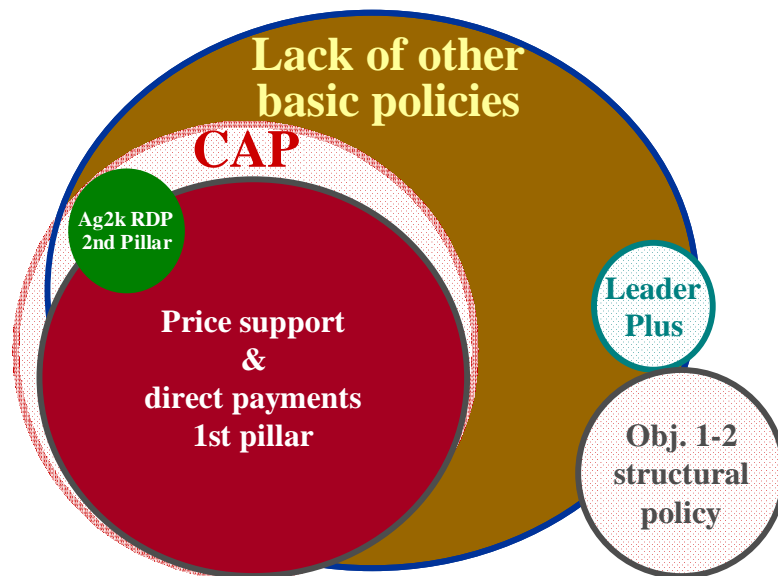
It is evident that the present Common Agricultural Policy (even in the Agenda 2000 reformed version) does not comply with a theoretically correct rural development policy definition. Notwithstanding the relevant progress made so far in the EU on several aspects of a territorially oriented policy (the reform of structural policy, LEADER Initiative, the “accompanying measures” of the Regulation no. 2078/1992 and, after Agenda 2000, the so-called “second pillar” of the CAP), the objective of an agricultural policy, coherent with a rural development comprehensive policy, is still very far away. No significant integration is in fact researched between agricultural policy and all other sectorial, social and territorial policies relevant for rural development. Substantially rural development is still basically considered within the CAP as an agricultural issue, disconnected from regional, territorial and local development.

But even inside the CAP a tremendous contradiction still exists. It consists of the still distorted budget distribution between the two pillars. Given the overwhelming weight of the first on the second (i.e.: market support and direct payments on rural development), the final effect is determined by the prevailing push of the old support to products, which weakens and neutralises all efforts made in favour of integrated and multidimensional agriculture.

As a result, in spite of the Mac Sharry and Agenda 2000 agricultural reforms, the territorial distribution of benefits has not substantially changed and the CAP has still maintained a sectorial function in conflict with the Cork Declaration and with the “European model of agriculture” required by the declaratory chapter of Agenda 2000. Still integrated roles and multifunctional agriculture are insufficiently supported, while high levels of profit and rent are associated with market distortion and the behaviour of farmers coupled with production. As a result, artificially high land prices hamper the establishment of new enterprises and the access to the young and new entrepreneurial energies in agriculture. The maintenance of this CAP brakes the enlargement process and weakens the EU position in the WTO negotiations.

The *de facto* Rural Development Policy can then be described as follows. The major role is still played by agricultural policy. And rural actors are still consistently oriented by it. But unfortunately not in a rural development direction. Paradoxically, in fact, the so called rural development of Agenda 2000 is only a 10% package (no more than a small extra sum) to the centrally defined traditional CAP oriented towards market support, that maintains its overwhelming weight. The other European policies which are addressed to rural regions (the new objective 1 and 2 structural policy as well as the LEADER Plus Initiative) are independently defined and anyway not able to comply with a comprehensive RDP as previously defined.

*Fig. 6 - The de facto rural development policy in the EU*



As a result rural areas still lack complementary policies for rural development remaining in a condition of precariousness and uncertainty. Moving from the present CAP to a more integrated rural policy is one of the major issues for Europe. The subject has been widely addressed by research<sup>9</sup>.

An integrated vision of agricultural policy should also integrate two new dimensions: the first regards all institutional levels and responsibilities from the centre to the periphery<sup>10</sup>, the second dimension concerns the necessary convergence between budget expenditure and tax and social security exemption or facilities.

An issue of a reformed CAP concerns the enterprise and the entrepreneur. The specific character of the past CAP has distorted the entrepreneurial capacity of farmers and distanced them from the other small-medium entrepreneurs. Acting in an artificial and protected market, farmers have in fact been educated to solve prevalently technical problems, while a small-medium entrepreneur, facing competition on open markets, needs a different skill: oriented to solve business and market problems. A crucial commitment of a new agricultural policy will then search for new solutions to remove the gap between farmers and other small-medium entrepreneurs in rural areas so helping them to operate in less protected

<sup>9</sup> The policy recommendations of the Buckwell Report on CARPE can be recalled: A. Buckwell et Alii, "Towards a Common Agricultural and Rural Policy for Europe, "European Economy", n. 5, 1997.

<sup>10</sup> In Italy for instance the national and regional policies have often competed with the CAP following, as a matter of fact, different and contrasting objectives.

markets, favouring the exchange of experience between sectors and with other territories.

As a conclusion, with rural development, Europe is required to start a new experiment in governing. To accomplish that task, policy makers should develop more intense co-operation through research. From this perspective, RDP is a substantial challenge for agricultural economists as well. Without losing their point of observation and their specificity, they are required to open their disciplines to a cross-fertilisation with other disciplines concerning not only economics and other social sciences, but also natural sciences and territorial planning.

A substantial effort in this direction is evident in all the papers presented here. They can contribute to a more suitable and concrete definition of sustainability in development and to a corresponding policy design.

### *3.2 Some notes on rural development perspectives within the ongoing Mid Term Review proposals*

Presented in July 2002, the proposals for the Mid Term Review of the CAP have presently arrived at an advanced stage of definition. On the successive drafts of the proposal several scientific analyses have been made. And several positions have been expressed from each Country representatives and the leaders of the agricultural lobbies as well. The aim of this last paragraph is limited to presenting some considerations from the perspective of the analysis illustrated so far in particular concerning the rural development perspective and the integration between the sectorial agricultural policy and the other policies dedicated to foster the development of rural territories.

A first consideration concerns the shift of the power of decision on the CAP reform from the holders of agricultural interests, to the representatives of general interests. The change is not new: the 1992 Mac Sharry reform was substantially decided around the agricultural table, where the Commissioner for agriculture, who gave his name to the reform, assumed the role of mediator between agricultural ministers, farm unions, agricultural co-operative associations, landowner associations and so on. Agenda 2000, on the contrary, after the failure of the Cork conference on rural development, was a product of the whole Commission.

But now the isolation of the agricultural lobbies is much more evident if they do not interact with the general interest of the society and of Europe. The case for the immediate defeat of the opposition to the MTR proposal presented by seven European agricultural ministers led by the French one immediately after the presentation of the first proposal, is clear. The Chirac-Schroeder agreement on the agricultural budget after the enlargement and for the 2007-2013 financial perspectives, and the following Brussels

summit sounded as a sharp denial of any sectorial approach. There are in fact at stake so many and overwhelming political issues, linked to the agricultural reform decisions, that the second will systematically be adjusted to the former. The enlargement process, the management of the redistributive effects of the common currency in Eurolandia, the WTO negotiations, the international crisis between the USA and the EU following September, 11 and the Iraqi conflict. The list can continue.

If analysed in this light, the Commissioner Fischler MTR proposal appears as a very intelligent attempt to build a bridge between, on one side, the sectorial interests and the past CAP and, on the other side, the general issues of the present political agenda of the EU, the market and the expectations (and willingness to pay) of the citizen and the tax payer towards agriculture.

The keenest (and projected to the future) agricultural lobbies (like in Italy the largest farmers Union: Coldiretti, as well as all the co-operative associations) have clearly understood this point<sup>11</sup>. In a progressive position are also many other lobbies: for instance the British Landowners' Association.

It is not the case here to analyse the specific aspects of the MTR proposal. Some of them are still to be clearly defined. But some crucial changes are clear in the CAP reform.

The present CAP is substantially oriented to pay for *status* attributes of the beneficiary (the land ownership, the status of farmer, the right to produce, the standardised crops, etc). It is substantially a passive policy, oriented to redistribute money from the rest of society to a relatively small social category. This policy was justified in the past when quantitative food security was at risk, farmers were poor and in social distress and the political weight of the farmers Union (and parties) was higher. But now its time has passed and it is only a generator of rent.

The future CAP will be more and more active and oriented to pay for the *behaviour* of the farmer (in other words for its *project*) as an entrepreneur producing products and services demanded by a more liberalised market or corresponding to common needs of society.

The shift of the CAP from a passive approach to an active one appears in several aspects of the MTR original proposal presented in July 2002:

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<sup>11</sup> Coldiretti (2003), La revisione di medio termine della politica agricola europea. Prime valutazioni, Bruxelles.

Confcooperative, ANCA Legacoop, AGCI, UNCI (2003), La cooperazione italiana nel futuro dell'agricoltura europea la riforma della PAC: prospettive politiche a lungo termine per un'agricoltura sostenibile, Verona.

- The unique decoupled payment per farm releases the farmer from the need to concentrate on supported crops or animal products, giving the market the role of orientating its decisions;
- The more evident cross-compliance constraints obliges him to respect a compulsory body of environmental rules and paves the way for a more evident and direct support to the protocols for good practices (within a re-coupled CAP directed to pay for common goods and services); the same principles are applied when, as in the case of durum wheat, part of the support is recognised on the basis of the respect of high quality standards; the same is with the 10 years compulsory set-aside;
- The so called dynamic modulation consents at the same time to decrease the compensatory support based on historical conditions of the farm (penalising the passive maintenance of past behaviour), and collecting money for rebalancing the CAP budget in favour of the rural development chapter in the direction of the fifty-fifty distribution between the two pillars frequently indicated by Commissioner Fischler himself as an objective for the reform.
- Finally, the present inhomogeneous range of policies under the second pillar are assumed to be relatively rationalised. In particular the accompanying measures are going to comprehend other objectives for safety standards adoption, food quality prescriptions, environmental care and animal welfare.

During the discussion of the MTR proposals several attempts have been made to dilute these fundamental assumptions of the reform. Some of them have reached their target. In particular delaying the deadlines of the reform and imposing very expensive compensatory measures. The reference here is to the proposals for the reform of the milk Common Market Organisation (as well as for the sugar one). The decision to finance its very expensive compensatory strategy, using for that purpose the funds coming from the dynamic modulation that had previously to be destined exclusively to the second pillar policies, will dramatically change the possibility to finance an effective rural development policy in the EU and to balance the ratio between the first pillar and the second.

This is a crucial point in particular for new members, considering not only their interest to enter the EU after and not before the CAP reform, but also their opportunity to pursue a tighter linkage between the sectorial agricultural policy under the reformed CAP and the future strong EU investment in their territories under the other EU cohesion policies such as those under the structural objectives 1, 2 and 3 and under the Community Initiatives: Leader +, Interreg III, etc.

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