

GOODS PROVISION THROUGH AGRICULTURE IN THE NEW FINANCIAL FRAMEWORK OF THE EUROPEAN UNION

Abstract

The paper aims to explain funding European public goods from the EU budget. The author characterises categories of goods and refers to the current EU financial perspective. Common Agricultural Policy (CAP) offers a range of measures to support the types of farming, management practices needed for the provision of public goods, both environmental and social. In addition to biodiversity and landscape, agriculture can also help to provide other environmental public goods, such as high quality air, soil and water and a stable climate as well as improve the resilience of land to natural disasters. Agriculture also plays an essential role in delivering other public goods, including food security and rural vitality.

Keywords: European public goods, budget, the European Union, Europe 2020, Multiannual Financial Framework.

Introduction

Recently, funding of the European public goods from the Community budget becomes an increasingly important issue. The question which policies, and within their framework – which measures, conducted in individual Member States, should be funded from the European Union budget, resurfaces time and again when decreeing subsequent financial perspectives. The European Union budget is characterised by a set character, as it is executed under international organisation. The actual financial perspective 2014-2020, adopted at the times of the economic crisis, reflects the possibilities of financing predetermined targets of the policy. Hence, the issue should be discussed, also bearing in mind agriculture, which – on the one hand – is subject to public regulation and funding from

the EU budget under the Common Agricultural Policy, and – on the other – it provides many public goods important from the perspective of the entire society. This paper presents definitions of public goods with special emphasis on goods provided by agriculture and the possibilities of their financing from the budget of the European Union. Moreover, what needs to be remembered is the justification of the undertaken measures and rationalisation of public funds spending.

Essence and breakdown of public goods

Economic theory deals mostly with private goods (Jakubowski, 2005). However, proper shaping and provision of public goods is extremely important as it comes down to the functioning of the state and the life of its citizens. The public choice theory, qualified as one of the theories of the new institutional economy, captures the issue of common goods provision, it also refers to the problems involved in voting, choice in democratic conditions, theory of social contract and constitutional order, economic theory of power, theory of interest groups and distribution coalitions or rent-seeking theory (Wilkin, 2005). The public choice theory refers also to workings of an institution in the field of politics, which is especially important in the context of funding the European public goods from the EU budget.

The idea of goods, thus public goods, is not a new phenomenon. Adam Smith, in his book *An Inquiry into the Nature and Causes of the Wealth of Nations*, put forward that a state should take up measures as regards availability of public good for citizens. Public goods provided by the state include: safety, i.e. protection of the society against external threat, observance of the principles of social equity and keeping the jobs in public institutions, which individual citizens or small groups thereof are not able to fund, since income from them will not provide return on the incurred inputs (Smith, 1954). According to a dictionary of economic terms – *Uniwersalny Słownik Ekonomiczny*, public goods are defined as goods and services created as a result of non-economic decisions of state institutions or territorial self-government bodies. They are funded from the funds of the entire society and provided to the given population without additional fees. Some specific features of public goods can be differentiated. Firstly, public goods are goods whose operation (or consumption) by one person does not limit the possibility to use them by other people (non-competitive consumption) (Stiglitz, 2004; Samuelson and Nordhaus, 2012; Aocella, 2002; Altvater, 2007). Secondly, there is the principle of non-exclusivity, i.e. it is not possible to practically cut one entity away from the consumption of the public good and not allowing to benefit from the goods would be impossible or would be linked to enormous costs (Olson, 2012; Wojtyna, 1990; Stiglitz, 2004). Public goods are available for everyone, also for those who did not pay for them (the so-called free riders, who knowingly benefit from the goods and avoid any costs resulting from their use). Public goods can be also treated as a special type of externalities, because the producer of these goods provides them not

only to himself but also to other entities (Aocella, 2002). Public goods are bought or produced by large groups of people or governments, while private goods are bought or produced and used by individual people or members of small voluntarily created groups (Kemerschen, McKenzie and Nardinelli, 1991).

The differentiation between public and private goods is based on the concept of market failure. It means that market competition does not lead to socially acceptable results, while external costs of market mechanism operation are so large and negative that there is no public consent for their financing (Solarz, 2005). Provision of public goods is a fundamental role of an organisation (Olson, 2012). The state is the most important of all organisations and thus it is responsible for providing public goods to its citizens. Without the state's interference, consisting in production and provision of these goods, it can happen that despite a large demand for a given good it is not produced (Wojtyna, 1990; Stiglitz, 2004). Considering public goods as important from the viewpoint of the entire society, justifies intervention measures by the state and in such a case it is possible to refer to national goods. Buchanan argued that increasingly larger part of resources is used as a result of collective decisions taken by the political mechanism. Nonetheless, the political decision-making process is much more complex and complicated than the non-political decision-making which is implicated by market incentives (Buchanan, 1997). The fiscal state is to provide some goods and services which – given their nature – cannot be provided by the market. This requires involvement of public funds, but it of course does not mean that the practical production is to be managed by the government. There are, mind you, many private contractors executing public investments. However, in such cases it needs to be kept in mind that supervision of state institutions is still necessary. This concerns both price regulation for monopolists, who function as private enterprises, and production harmful to the environment (Musgrave, 2005). As indicated by Musgrave (2005) both types of goods, private and public, should be available for balancing consumer preferences and costs of provision of the goods. Because the principles of public goods availability depend on the income of citizens, the income and expenditure side should be subject to joint decision-making in the budget. The best solutions are subsequent rounds of voting on the programmes, until reaching an “approximate consensus”. However, it needs to be kept in mind that interest groups might be established and politicians can collude, leading to decisions incompliant with social expectations. Apart from the national and local goods provided by the countries and gminas, it needs to be noted that there are also European and global goods (Kaul, 2001; Altvater, 2007). Global public goods result from work of organisations and institutions of international character and bring multifaceted benefits (Altvater, 2007). According to Kleer (2008), although the participation in creation of global goods is voluntary, the units taking part in the process are entities of varied economic and political strength and also different cultural conditions. The global public goods should be a manifestation of the

national goods, thus they should fulfil similar functions. It is possible though, to refer to competitiveness of global public goods against the national ones. As far as the national public goods are regulated by an economic and political system of a given state, it is impossible to transfer these solutions to the global level of public goods. Production and determination of the global public goods is always linked to compromises that – on the one hand – consist in execution of the international agreements, and – on the other – disturb sovereignty of countries taking part in the process (Kleer, 2008). It needs to be remembered that the national public goods create a certain whole, which follows from former experiences of countries and socio-economic systems, while global public goods are linked to a need to solve specified economic or social problems of supra-national range at a given time. They are most often partial and not very coherent measures, also because of the limited possibilities of their financing. According to Kleer (2005), a function of global public goods is mitigation of discrepancies between the national and world market. Public goods are social measure since political decisions influence which goods are publically available and at what level (global, international, national or local) (Bryła, 2013).

European public goods, supplied to the EU citizens, are financed from its budget and meet the characteristics of national public goods. They are the effect of EU policy-making, which takes into account the interests of respective Member States. Today, a lot of public goods supplied at the EU level were the effect of national policy-making. The best example is the Common Agricultural Policy, in case of which there was a switch in competence powers from the national to the EU level. Agricultural policy-making, as a Community policy means also a shift in the weight of its funding to the EU level. By design, the European public goods, which are the effect of the EU policy-making, are provided to the citizens of the Member States; but the intensifying globalisation processes cause that in the present situation also citizens of other countries, e.g. migrants, can benefit from these goods.

Justification of public goods financing in the EU budget

The budget of the European Union is basically different from the national budgets. The funding system is different and the spending system varies, as well. In principle, it is to be the EU-wide budget and the spent funds provide value added. Despite the fact that the EU Treaties provide for creation of own assets and that the Community is being continually enlarged, there are no actual own assets. Instead, the European budget is based on contributions paid from the budgets of Member States. Member States are eager to take up measures under the implemented European Union programmes, but unfortunately they are less prepared to transfer funds to the objectives. In the Multiannual Financial Framework the EU budget for 2014–2020 continues to total 1% of the Gross National Product of the Member States and to account for ca. 2% of their public expenditures.

The functions of public finances can be divided into three basic ones: allocative, redistributive and stabilising. The essence of the allocative function is to provide goods and services to citizens, local communities and the entire society without the share of the market mechanism. It would be difficult to organise public safety or central administration under market principles (Owsiak, 2002).

The goods provided under the measures of the EU budget can be treated as European public goods executing the redistributive function of the budget, which can be exemplified by the selected effects of implementation of Common Agricultural Policy, for which in the present perspective EUR 373.179 billion was allocated, i.e. 38.9% of the entire budget allocated for commitments.

Today, public goods financing at the EU level involves its policy. The EU policy priorities were determined in the Europe 2020 strategy, where the main focus is on increasing employment, better educational attainment, improved conditions for scientific research and innovation, decreased poverty and reduced emission of greenhouse gases. These objectives set in the Europe 2020 strategy translate into specific measures funded from the EU and national budgets, whose completion was planned by the EU for 2020 (Europa 2020..., 2010).

However, a question should be asked: what is the reason for taking up measures at the EU level, and how public goods financing can be justified? According to Lamassoure, an important element determining the significance of the EU budget in funding the EU-wide objectives is the so-called European value added, understood also as a dividend from Europe. The EU budget should be used to finance the EU public goods that Member States and regions are not able to fund on their own or whose funding from the EU budget can ensure better effects. The budget can generate value added by establishing partnership structures, encouraging to policy of innovation and cross-border partnerships, which in case of no funds in the EU, would not be taken into consideration. But then, it needs to be remembered that excessive fragmentation and too large number of programmes supporting financing of measures have a negative impact on the value added and can contribute to seeing the EU as an institution wasting funds and failing to achieve the assumed indices.

Two criteria are applied to determine the European public good: technical and political. The technical approach differentiates between the EU and national public goods by the criteria of efficiency (a measure financed at the EU level provides an opportunity to avoid fragmentation of measures and to benefit from Europe's potential without boundaries), performance (better effect, better use of resources) and synergy (the EU actions necessary to stimulate and improve the European standards) (Communication from the Commission..., 2004). In line with the principle of synergy, the EU support is used only to supplement and stimulate measures taken at the level of Member States. This aid is characterised by greater effectiveness and efficiency than measures at the level of individual Member States. Also according to Oates (1999), payments from the EU budget

are justified on account of providing a relevant decision-making level for public expenditures and also aid to countries or regions, which given the level of socio-economic development, are not able to gather sufficient funds for measures often exceeding the area of a single country. An example of such measure is construction of efficient transport networks.

Another aspect is the performance of undertaken measures and the final effect. In specific situations spending EUR 1 at the EU level allows to achieve more than EUR 1 at the national level – this concerns, e.g., the use of monies stimulating initiatives in the field of development of new technologies. Another example is action in emergency situations, when it is necessary to react quickly and help the victims to contain direct effects of the crisis.

The factors listed below, which were indicated by Begg (2006), provide a specific summary of the validity of the EU expenditures for common measures implemented at the EU level:

- lowering the costs of production of goods and services (savings are possible by lowering unit cost as a result of concentration of production of public goods and avoiding their duplication);
- limited fiscal capacity of Member States (when the government has to limit expenditures it most often postpones execution of public investments);
- leverage effect obtained through private investments (effective policy in the area of the public sector often leads to supplementary inflow of private investments);
- financing of measures of significant innovative potential, even experimental, encouraging countries to introduce new solutions, e.g. in the field of sustainable development or the use of renewable energy.

Collignon (2008), when defining European public goods, stated that they have to be available for all European Union residents and unavailable for all non-EU residents, but today it is not always possible. Because of intensifying migratory processes, it is often the case that people from other countries cannot be excluded from using the European public goods. Ensuring internal and external safety, climate protection or the use of renewable energy sources that translates into cleaner environment is nothing more than provision of extremely important and needed goods to the society. Hence, European policy-making at the level of the EU by all stakeholders or their political representatives becomes quite obvious course of action.

Public goods provided by agriculture

Financing of Common Agricultural Policy under the EU budget results from a choice made by the societies, which are represented by political institutions taking decisions on the expected provision of public goods. Agriculture is one of the sections of the economy, in which – according to many authors (Wilkin, 2010; Czyżewski, 2015) – some part of costs of the CAP should be linked to provision of public goods by agriculture.

According to Wiklin, the following public goods provided by agriculture can be named (Wilkin, 2010):

- Environmental goods, which include: biodiversity, agricultural landscape, soil conservation, proper water relations.
- Economic goods: food security, food safety, energy security.
- Socio-cultural goods: economic and social vitality of the countryside, enrichment of the national culture, forging the local, regional and cultural identity.

Which programmes provide a source of financing public goods? Common Agricultural Policy covers two pillars: the first one, which provides financing mostly to direct payments, and the second one, which funds measures under the Rural Development Programme (Polish: *Program Rozwoju Obszarów Wiejskich*). In Poland the amount of funds allocated to direct payments in 2014-2020 is EUR 23.49 billion, out of EUR 32.09 billion earmarked in total for measures executed under the CAP. Payment of direct payments to beneficiaries is directly linked to observance of the requirements resulting from the implemented policy. This refers, e.g., to greening payments dependant on meeting the requirements as regards diversification of crops, maintaining permanent grasslands and allocation of a part of the area for environmental purposes. Out of the total funds planned for direct payments, 30% were allocated to this payment. What is important at this point are the applicable cross-compliance standards and requirements which, e.g., provide an opportunity to (System..., 2015):

- use biodiversity through protection of the natural habitats, animal and plant species in the Natura 2000 sites;
- form landscape as part of preservation of nature monuments, waterholes of not less than 100 m², a ban on destruction of ditches up to 2 m wide;
- preserve correct water relations by using fertilisers at specified distances from watercourses and reservoirs, protection of groundwaters against pollution with dangerous substances or observance of the procedures of issuing permits concerning irrigation of lands;
- maintain good status of soils, as a result, e.g., of cultivation in arable areas situated at slopes with a gradient of more than 20 degrees, a ban on clearing arable land by fire or ensuring minimum protective layer for soil at the area of at least 30% of arable land situated in the areas at risk of water erosion.

Measures to ensure food security include: adherence to the standards on food and fodder production, a ban on the use of compounds with hormonal action, thyrostatic and beta-agonist agents, and also prevention and control of certain animal diseases affecting the health of consumers.

The Rural Development Programme is the second, apart from direct payments, instrument to encourage and support measures in the field of management or investments contributing to creation of public goods (Program..., 2014). The most important measures recommended as means to provide environmental public goods include: restoration and protection, and also enrichment of biodiversity

(including in Natura 2000 sites and areas with natural constraints) and agriculture of high natural value, better water management (including fertilisation and the use of pesticides) or prevention of soil erosion. It is also necessary to keep agricultural land use in less-favoured areas. Extensive land use in such areas contributes to preservation of the landscape values and favours biodiversity of rural areas. An important measure contributing to the creation of the elements of agricultural landscape is establishment of ecological corridors and enclaves (e.g. by rational afforestation of marginal soils or preservation of lands not used for agricultural purposes that provide a place for wildlife). A positive impact on the natural environment is also exercised by carrying out sustainable farming methods which limit the loss of organic substance content in the soil and prevent washout of minerals and their transport to groundwaters.

One of the aims of the Rural Development Programme is provision of economic public goods. Ensuring food safety is possible via structural modernisation and transformation of agriculture. Better competitiveness of agricultural producers is achieved by better integration with the agri-food chain and better promotion of agricultural products. These objectives can be achieved by further support for investments in farms, including innovative solutions. Innovative solutions facilitate adjustment of agricultural activity to the needs of the natural environment.

Another group of goods covers socio-cultural goods. The Rural Development Programme supports measures involved in improvement of the condition of cultural heritage and construction or reconstruction of facilities fulfilling important cultural functions.

Conclusions

European public goods are a tremendously important and, simultaneously, very difficult issue, often analysed in economic theory. Above all, financing of European public goods in agriculture is especially important. On the one hand, it is necessary to remember about the need to finance goods at the EU level, which is the effect of joint agricultural policy-making, and, on the other, about the observance of the principles linked to rationality of spending public funds. Hence, it is crucial to develop a clear strategy of actions and explain why specific public goods in agriculture should be financed from the EU budget. Whether or not the EU budget is the right and only source of financing for these goods? For the European public goods, probably yes. Only financing at the level of the EU – from a joint budget – ensures execution of the agricultural policy goals in all Member States, which of course does not exclude cooperation between Member States in financing of the goods. However, what needs to be kept in mind, above all, are the results of undertaken measures and not only the needs to use up the existing funds, because funds from the EU budget should be spent correctly, ensuring European value added. Public goods provided by agriculture are a key group of goods. They have an environmental dimension, contribute to better food and energy security and forge national identity and enrich the national culture.

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Abstrakt

Celem artykułu było przedstawienie uzasadnienia finansowania europejskich dóbr publicznych z budżetu UE. Autorka scharakteryzowała rodzaje dóbr i odniosła się do aktualnej perspektywy finansowej Unii Europejskiej, podając przykłady dostarczania dóbr publicznych przez rolnictwo. Wspólna polityka rolna oferuje wiele środków wsparcia określonych rodzajów gospodarki rolnej, praktyk rolniczych, które przyczyniają się do generowania dóbr publicznych, zarówno o charakterze środowiskowym jak i społecznym. Oprócz różnorodności biologicznej i krajobrazu rolnictwo może pomagać w generowaniu takich dóbr publicznych, jak: wysoka jakość powietrza, gleby i wody, ochrona klimatu czy poprawa odporności gruntów na klęski żywiołowe. Rolnictwo odgrywa także dużą rolę w zapewnieniu bezpieczeństwa żywnościowego i żywotności obszarów wiejskich.

Słowa kluczowe: europejskie dobra publiczne, budżet, Unia Europejska, Wieloletnia Perspektywa Finansowa, rolnictwo.

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