Introduction, Workshop 1, Day 2

JC Bureau

If we focus on job creation and economic development in rural areas, and taking the risk of oversimplification, one may consider two broad directions for the development of rural areas:[1]

> **#1-** Boosting the productivity and competitiveness of the local economy. The logic is "exporting" goods and services outside the rural territory. This means a rural development policy that helps make productive systems more efficient, add value through new organizations of supply chains, use innovative technologies for supplying biomaterial, etc. What can be called "rural supply chains".
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> **#2-** Creating local jobs through the residential economy. The logic is to sell goods and services locally. This means a rural development policy that attracts residents, tourists, retirees, and creates the conditions for economic clusters, something made easier by new technologies and distance work.

There is no sure recipe for any of these two directions. We have examples of failures as well as successes. Examples of #1 include the successful cluster of agriculture and food industry that relies on innovation in some horticultural sectors in the Netherlands; they also include the not so successful equivalent in Brittany where what was once a competitive and dynamic cluster around animal production is facing considerable problems, with large scale job destruction. Examples of #2 include dynamic rural areas in parts of the French, Italian and Austrian Alps, where rural areas attract tourists but also highly skilled people in the high tech industry whom agriculture can sell high valued products, largely thanks to a well maintained rural landscape. But one may also look at the largely unsuccessful development of Southern Italy, which, on paper should be the Fort Lauderdale of an ageing European population, but has largely failed to do so.

What are the current economic tools, at the EU level?

Since Cork 1, the EU has granted itself with powerful instruments. A direct child of the Cork conference was the creation of a single regulation with a single juridical instrument, and the national or regional rural development plans.[2] The recent reforms have brought a greater degree of articulation between the CAP's rural development pillar and other structural funds, including the European Fund for Strategic Investment (EFSI). The Commission is working on making it easier to for Member States and regions to include Financial Instruments in their Rural Development Programs, in particular accessing European Investment Bank funding in combination with EAFRD.

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[1] I borrow from Laurent Barbut in many occasions in this speech. See for example Barbut (2009).

[2] RDR 125/99, today Regulation 130/2013 on support for rural development; together with Regulation 1303/2013 (common provisions concerning the EU structural and investment funds) and 1306/2013 (on the financing and managing of the CAP).

The different instruments put together allow for a range of co-funded investment opportunities for farmers, foresters and rural businesses.[3] Rural development programs can help creating new non agricultural jobs in rural areas and to train inhabitants for new and future jobs, in addition to develop rural value chains.

If we consider the above item #1, the current tools include boosting productivity through

-transfer of knowledge and information; advisory services; technical assistance , producer groups and organisations. The instruments include European Innovation Partnership for Agricultural Productivity and Sustainability (EIP) and other instruments under ther EAFRD as well as EFSI. Tools to support innovation, for example precision farming, information technology, data, storage faciliteis, infrastructures for energy and water efficieny, bioeconomy investments (bio-reactors) can be funded by EAFRD or Horizon 2020, or more generally under the recent Bio-based Industries Joint Technology Initiative.

-support to physical investment in agricultural value chains (processing of farm products, infrastructures), by the way the most commonly chosen measure in rural development plans by Member states. The CAP includes support to young farmers, to non farm business operations in rural areas.

- giving a better environment for farms and firms to growth. Current instruments include limiting exposure to price volatility and economic uncertainty (assistance to production potential in case of disasters and catastrophic events, risk management instruments: insurance, mutual fund, income stabilization tool under CAP Pillar II).

If we consider the above item #2, several aspects of the rural development policy contribute to enhance the attractiveness and the vitality of rural areas. This includes the maintenance of economic activity, territorial development, and preventing entering a vicious circle of economic decline and reduction of public services. Tools include CAP's less favored areas payments, support to investment in the development of forest and ecosystems. Attractiveness for tourists as well as residents include a series of measure to protect the environment, (organic farming, Natura 2000, payments for forest conservation and environmental services), the development and maintenance of rural infrastructures. LEADER also provides opportunities for rural territories to explore new ways to become or to remain competitive, by supporting local initiatives to steer economic development..

What should be done more?

Overall, these instruments have been successful. Over the 2007-2014 period, it that economic growth has been significantly higher in rural regions than in urban regions (defined at the NUTS 3 level, see EP, 2016), even if it started from lower absolute levels. In the very recent period, RD funding has facilitated the emergence of new models (short supply chain with low food miles, conversion to organic, ecological intensification, development of market niches through local labels and traceability).

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[3] This includes schemes developed with the EIB on forestry, on coaching entrepreneurs, a gurantee fund that secures loans, funds for innovative companies, grants, etc.

However, employment in EU208 fell by 9.6% in agriculture between 2007 and 2013 compared to a decline of 2.8% in the whole economy. Recent studies even question the overall role of the CAP in terms of job creation (EP, 2016). Some authors consider that the CAP has indirectly generated unemployment, even though the responsibility lies more in Pillar 1 than in Pillar 2 policies (Peerlings et al, 2014). This contrasts with the Commission's vision that the CAP is necessary for a balanced territorial development, and that rural development policies play a significant role in job creation (EC, 2015).

Rural development policies have disappointed in the sense that they have not induced the much needed innovative breakthrough. That is, they have slowed down job destruction rather than really boost job creation. For example, payments to farmers, including under Pillar II, have supported existing systems more than triggered changes in practices. For example Olper et al (2014) find that the CAP mostly slowed down the rate of migration from agriculture to other sectors, even though, Pillar II measures have a better record than Pillar I. Recent changes have redistributed income but few of them have triggered changes leading to more value. Payments have helped maintained family farms, but has not fostered innovative institutional forms (cooperative use of capital, innovative legal status under societal forms, etc.) that might be needed for tomorrow's challenges. Obviously, an examination of the regional and national development plans shows that much of the success depends on the way Member States have managed the opportunities provided by EU rural development policies (EP, 2016).

The frustration over the prospects in many rural areas should not be underestimated. If a CAP reform was taking place today, there is little doubt that Pillar 2 budget would be reduced even further than what it experienced in 2013. Pillar 2 measures are complex, they are seen as bureaucratic, even though the criticism often comes from lobbies who believe they are entitled to payments without the need to provide public goods. Structural funds are not up to the task, their amount is ridiculous when compared to federal transfers to lagging regions in the United States. EU innovation policy is seen as unfair by many Member states because it benefits disproportionally to a few member states that have developed the procedures to capture funding. Conditioning funding to the setting up of joint programs between public researchers and private companies, given the issues at stake regarding intellectual property, often leads to capture of public funds, windfall gains and eviction.

There is an urgent need for European citizens to actually see the fruits of EU policies. I am from a rural area where euro scepticism is on the rise and where there little perception that EU policies help the economy. Rather, what is perceived is that the European Union, because of its lack of fiscal and social harmonization is killing entire rural regions. Making the instruments of rural development work and showing the effective job creation is now crucial. This is why we are here for.

References

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