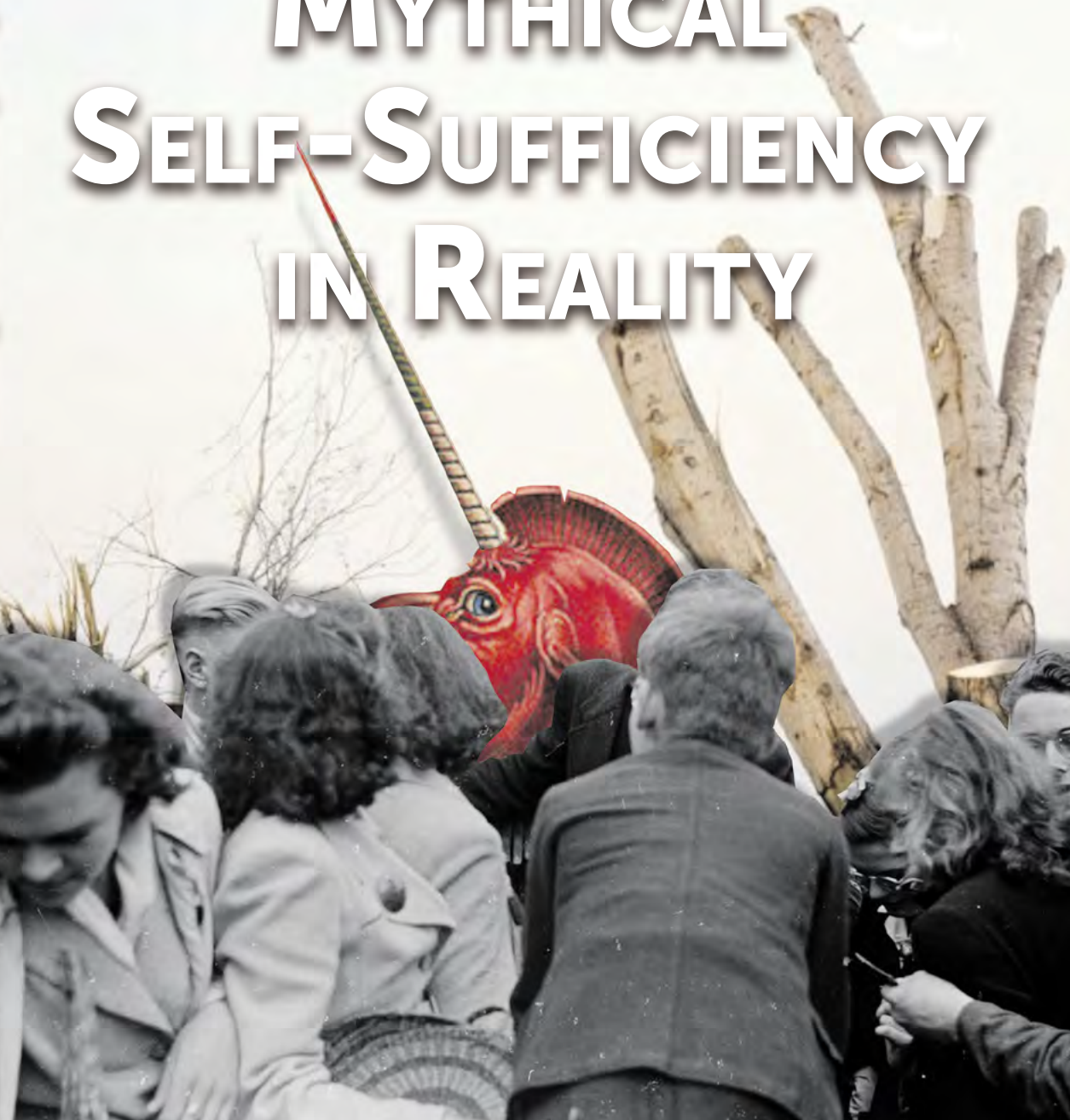


MYTHICAL SELF-SUFFICIENCY IN REALITY



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EDITOR-IN-CHIEF OF 4LIBERTY.EU REVIEW

Olga Labendowicz

CONTENT EDITOR OF 4LIBERTY.EU REVIEW NO. 15

Monika Budzák

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Błażej Lenkowski – President of the Board
Leszek Jażdżewski – Vice-President of the Board

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The Mythical Self-Sufficiency Versus Reality

Being self-sufficient sounds like a magnificent idea. It would be truly impressive and commendable if each of us – be it a citizen or a state – did not have to depend on anyone else. How great would that be, right? However, being self-sufficient is oftentimes not without detriment – either to the planet or ourselves.

When thinking of *self-sufficiency*, another concept immediately comes to mind – namely, the Emersonian *self-reliance*. Nevertheless, whereas depending only on oneself may seem an appealing notion in terms of making your own decisions that would meet solely one's own individual desires and needs, it does not come without consequences. Once the need for cooperation disappears, so do the connections with others, and, as such, an individual may become isolated. When it comes to states, this approach seems even more problematic. After all, the contemporary world has, for a long time, already been extremely interconnected – and some ties run very deep.

The ever-present battle between what people wish for and what is actually true continues – also in terms of self-sufficiency. In a globalized world, in which we watch American tv series, wear t-shirts made in Bangladesh, and use smartphones produced in China (with materials sourced in Africa), is the quest for being self-sufficient even possible? Or maybe it is realistic, but only for certain sectors of our respective economies? This is precisely the main area of interest for this issue of the *4liberty.eu Review*.

The 15th issue focuses on the mythical self-sufficiency and tackles it from various perspectives. With articles from the Czech Republic, Poland, Slovakia, Ukraine, Hungary, and Austria, we tackle a number of challenges and problems related to autarky and share experiences from various moments in history. By applying primarily a CEE lens, we shall embark on a captivating journey, broadening our horizons and busting misconceptions of the power of self-sufficiency, which populists love to dust down.

And so, even though, as Epicurus once reportedly said, "*Self-sufficiency is the greatest of all wealth*", not all wealth can be secured by means of self-sufficiency. Especially when it comes to the unparalleled benefits of cooperation. *luncta iuvant*¹!

Stay safe and strong,

O. Labendowicz

Editor-in-Chief of *4liberty.eu Review*
Coordinator of the 4liberty.eu network



¹ Latin for "together they stive".

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The Myth of Autarky and Self-Sufficiency from Mercantilism to the Present Day: Why Do We Still Fall for the Idea When Dependent on Export for Survival?



*
MARTIN
REGULI

Some ideas have a tendency to survive in the minds of people, no matter how many times they are proven wrong. The economic nationalism, under the name of *self-sufficiency* or *autarky*, has not been a new concept. The idea dates back at least to the era of Mercantilism of the French monarchy under Louis XIV.

Despite the dominant economic success of the *laissez-faire* free trade policy of the dominant countries of the 18th and 19th century, the ideology of self-sufficiency found its place in numerous totalitarian ideologies of the 20th century and even the early 21st century. For this reason, the dominant myth of self-sufficiency within the specific sectors where it survives to the present day needs to be examined.

The one element that unites the main areas of the economy has been the sense of endangerment associated with a handful of sectors, where people share a sentiment of a threat coming from a crisis (related, for example, to food and energy supplies, health care, etc.), where the government can justify its strong presence, subsidies, and protectionism of domestic producers.

Therefore, let us look at the key arguments presented, as well as their application in practice and confront them with the reality of the new age of Autarky, which threatens to undo many successes of economic transformation in the region.

TOWARD UNDERSTANDING AUTARKY

Over the course of history, economic liberalism has been engaged in many battles, which have been extremely difficult to win. While some ideas have failed a number of times, they keep resurfacing in the political and economic discourse due to their emotional or patriotic appeal. One of the most resistant ideas in this sense is that of

economic self-sufficiency (often referred to as *economic autarky*). This concept has been present in European economic history on a regular basis at least since the time of the Renaissance, and all the way to the present day when a new age of autarky emerges in the public discourse.

This analysis aims to look at the foundation of autarky and its brief history in order to understand its emotional appeal in the specific sectors of the economy – especially within the scenarios of crisis. This is when people always feel the need to protect and control those sectors of the economy necessary for the survival of the population. These areas include agriculture, fresh water, energy, or health care. Within these sectors, the accepted rules for how to govern the economic growth through trade and competitiveness are scrapped to

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WHILE SOME IDEAS HAVE FAILED A NUMBER OF TIMES, THEY KEEP RESURFACING IN THE POLITICAL AND ECONOMIC DISCOURSE DUE TO THEIR EMOTIONAL OR PATRIOTIC APPEAL

comfort the often-irrational fears, which leads to a cyclical situation. The crisis of government mismanagement feeds the voices calling for a more efficient form of government control. It is a cycle that liberals must work tirelessly to break and reassert the efficiency of economic liberalism within these areas of the economy where emotions often reign supreme.

THEORETICAL FOUNDATION OF AUTARKY

From the theoretical perspective, economic self-sufficiency is antithetical to the *laissez-faire* economic liberalism, which is based on several concepts that liberals take for granted: economic specialization, free trade, and improvement through competitive pressures, which command specific economic and industrial policies.

“IT IS NECESSARY TO SEE THE FLAWS OF MERCANTILISM FROM THE THEORETICAL PERSPECTIVE TO UNDERSTAND THEIR NEGATIVE IMPACT ACROSS THE ECONOMIC SECTORS

All the economies within Central and Eastern Europe have followed the model of economic growth based on the export of technology production and services to Western Europe through the membership of the European Union (EU). The foundation of the EU originally supported the development through economic liberalism and openness to a large market, removing trade barriers and supporting a sound economic policy, founded on a movement to a balanced budget, a responsible business environment and a removal of unfair support for the domestic businesses¹.

It is within the DNA of the economic autarky that all these considerations should be disregarded to sustain and support domestic production, self-sufficiency, and protectionism of national producers. This was understood by Adam Smith himself, who became one of the critics of this policy under the name of *Mercantilism*, which has originated from the writings of Antonio Serra (*A Short Treatise on the Wealth and Poverty of Nations* in 1613) and Tomas Mun (*Treasure by Foreign Trade* in 1664)².

In political practice, the policy of Mercantilism has focused on maximizing the use of the soil as well as natural resources for the purposes of agriculture, mining, and domestic manufacturing. This control of natural resources commands also a management of all gold and silver reserves for the needs of the economy and prohibits the export of these assets abroad. This

¹ Gupta, S. D. (2015) "Comparative Advantage and Competitive Advantage: An Economics Perspective and a Synthesis", [in]: *Athens Journal of Business & Economics*, Vol. 1(1), Athens Institute for Education and Research (ATINER), pp. 9-22. Available [online]: <https://www.atiner.gr/journals/business/2015-1-1-1-Gupta.pdf>

² agnusson, L. G. (2008) "Mercantilism", [in]: Samuels, W. G., Biddle, J. E., and J.B. Davis (eds.) *A Companion to the History of Economic Thought*, Malden, Massachusetts: John Wiley & Sons. Available [at]: <https://www.wiley.com/en-us/A+Companion+to+the+History+of+Economic+Thought-p-9781405128964>

approach, of course, leads to the policy of the attempts to discourage all imports of the foreign goods into the country. Moreover, the import should focus on raw materials, so that the production of necessary goods may be finished in the home country³.

It is necessary to see the flaws of Mercantilism from the theoretical perspective to understand their negative impact across the economic sectors. Adam Smith saw the calls for Mercantilism to be motivated by a conspiracy of manufacturers and merchants against consumers⁴. Authors such as Robert Ekelund or Robert Tollison described Mercantilism as a form of rent-seeking arrangement in a society in defence of the producers, who seek protection from genuine competition. In this sense, Mercantilism has been viewing economic trade as a zero-sum game, where a win to a foreign economic actor means a loss to a domestic one who pays the price for this development⁵. As a result, any system of policies benefiting one actor must be detrimental to the other actor and a reversal of these fortunes has no negative impact on the overall quality of the economic environment. These claims have dictated the direction of domestic economic policies, where autarky was introduced.

It was the endeavor to economic autarky or self-sufficiency that has created a system of government-imposed monopolies. Not all proponents of Mercantilism supported this course of action. Some of them saw these steps as necessary preconditions

³ Landreth, H. and D.C. Colander (2002) *History of Economic Thought* (4th ed.), Boston: Houghton Mifflin.

⁴ Ekelund, R. B. and R.F. Hébert (1975) *A History of Economic Theory and Method*, New York: McGraw-Hill.

⁵ Ekelund, R. B. and Tollison, R. D. (1981) *Mercantilism as a Rent-Seeking Society: Economic Regulation in Historical Perspective*, College Station, TX: Texas A&M University Press.

“IT WAS THE ENDEAVOR TO ECONOMIC AUTARKY OR SELF-SUFFICIENCY THAT HAS CREATED A SYSTEM OF GOVERNMENT-IMPOSED MONOPOLIES

for the success of this system, while other Mercantilists saw the problems of corruption and potential inefficiency as unavoidable – and thus rejected these policy approaches.

Most Mercantilists agreed that a policy proposal was needed for the economic exploitation of the working classes, where the workers or farmers were forced to work in poverty to support this system from the bottom. The objective of such a move is to maximize the production while minimizing costs and the domestic consumption. The precondition of the success of this approach has been the existence of a large domestic population, presence of export markets, and a military power⁶. Mercantilist worldview has dominated the economic

⁶ Ekelund, R. B. and Hébert, R. F. (1975) *A History of Economic Theory and Method*, New York: McGraw-Hill.

ideology within the European continent throughout the early modern period, ranging from the Italian city states, through the French monarchy, and even England. It was within these countries that the Mercantilist policies have been first introduced. The most prominent policies in this line of thinking have been:

- high tariffs, mainly on manufactured produce;
- prevention of the trade with other nations for the economic centres as well as the colonies;
- monopolization of the key markets through various preventive measures;
- outlawing of the export of gold and silver, including for the payments for imports;
- banning of the trade carried in foreign ships; provision of financial subsidies for the exporters;
- support of the manufacturing and industry through research or direct subsidies for the producers; caps on the wages for the workers in factories and agriculture;
- promotion of the use of domestic resources;
- restriction of the domestic consumption with measures such as non-tariff barriers⁷.

DEVELOPMENT OF AUTARKY THROUGH HISTORY

Despite the recent or even current attempts to reinvent self-sufficiency and autarky in some sections of the economy, the historical evidence points to a combination of economic failure and a disregard to the quality of human and economic rights

⁷ Magnusson, L. G. (2008) "Mercantilism", [in]: Samuels, W. G., Biddle, J. E., and J.B. Davis (eds.) *A Companion to the History of Economic Thought*, Malden, Massachusetts: John Wiley & Sons. Available [online]: <https://www.wiley.com/en-us/A+Companion+to+the+History+of+Economic+Thought-p-9781405128964>

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and freedoms enjoyed by a large part of the society. Nonetheless, many of these examples retain a considerable reputation despite the abuse that has been suffered by different social groups.

ELIZABETHAN ENGLAND AND THE BIRTH OF THE BRITISH EMPIRE

These economic policy prescriptions creating a controlled economy have been introduced in practice over a long period of time between the 15th and 18th century. The Mercantilist approach has been dominant in the economic thought since the birth of the Renaissance with evidence of this policy in the Italian states of Venice, Genoa, or Pisa, which have observed Mercantilism defined as a coherent economic school.

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IT TOOK UNTIL
THE MID-19TH
CENTURY
THAT THE UNITED
KINGDOM HAD
FULLY EMBRACED
FREE TRADE

The first prominent example of autarky was the case of an Elizabethan England between 1558 and 1603, when a policy of minimizing imports became intrinsic to the economic policy of the British monarchy. The objective of this approach was to develop a powerful naval and merchant fleet that could challenge the grasp of the Spanish armada on trade routes.

The efforts of the Elizabeth were successful in terms of the defence of English merchant ships against a more powerful Spanish Empire and strengthening the efficiency of the use of natural resources⁸. This policy managed to help found the basis of the expansionist business ventures, as illustrated by the birth of the East India Company, which was founded in 1600⁹. The futility of this approach became apparent in the

⁸ McCusker, J. J. (2001) *Mercantilism and the Economic History of the Early Modern Atlantic World*, Cambridge: UP.

⁹ King Jr., G. A. (2008) "The Development of Free Trade in Europe", [in]: *Free Market Forum*, Hillsdale, Michigan: Hillsdale College. Available [online]: <https://www.hillsdale.edu/educational-outreach/free-market-forum/2008-archive/the-development-of-free-trade-in-europe/>

mid-18th century, following the annexation of the Bengal region, a crucial trading power, by the British East India Company.

Given the growth of other competitors, such as the Netherlands or Portugal in the region and their support for the policy of international trade, England began to transition its position towards free trade. A considerable role was played by the birth of the classical school of economy. However, it took until the mid-19th century that the United Kingdom had fully embraced free trade, through repeal of Corn Laws and many other trade regulations, as an alternative system that helped the country build its international position in the world¹⁰.

The second and more prominent social problem to these early attempts at the autarkic economy was the use and abuse of colonialism and slavery. This is because a critical factor for the persistence of this economic system was a maximum possible use (or even abuse) of the colonies and a favorable trade balance. To achieve this, the European powers were active players in the transatlantic slave trade, buying people from slaveowners in Africa and using them for work in their colonies.

Both England and France (to be mentioned) were active in the slave trade between the 16th and early 19th century. Slave labor had been active in doing the work, which was very labor intensive, mainly in agricultural production (fur, sugar cane, cotton, or rum), which was sent back to Europe to be converted into consumer products. As a result, the enslavement of the indigenous people in the colonies has been an integral part of Mercantile practices in the English (British) and French colonial periods. The most common practice was the use

¹⁰ Blum, G., Cameron, R., and T.G. Barnes, (1970) *The European World: A History*, Boston: Little, Brown & Co.



MUCH LIKE IN THE CASE OF ENGLAND, FRANCE SOUGHT TO ACHIEVE ECONOMIC SELF- SUFFICIENCY

of slave labor in fur trade, cotton fields, or other menial tasks¹¹.

FRENCH ABSOLUTIST MONARCHY AND THE DAWN OF THE REVOLUTION

The English example was followed by the French policy articulated by the advisor and a finance minister to Louis XIV, Jean-Baptiste Colbert, in the mid- to late-17th century. He was one of the proponents of French Mercantilism, the dominant approach to economic affairs until Napoleon greatly liberalized the economic policy between 1799 and 1814/15.

In a similar manner to the situation in Elizabethan England, Colbert advised the French monarch to utilize the economic and diplomatic power in the interests of the king at the expense of the merchants as well as workers in the country. Mercantilism had the objective to utilize this power for the construction of the state, most notably in the era of constant warfare, and the

Mercantilist theorists provided the king and his cabinet with the necessary rationale for this course of action from the position of the economic policy.

In effect, much like in the case of England, France sought to achieve economic self-sufficiency. The state was convinced it could provide for all of its own economic needs, while it would count on the other nations' dependence on French agricultural exports. The reduction of the imports could in no way threaten the levels of exports. The focus then turned on the state support in the form of monopolies and subsidies for the domestic industry and commerce. The wealth of the country was associated and equated with the capacity to collect and circulate gold in the economy¹².

Both of these prominent examples have highlighted the early prominent examples of monarchical policies of self-sufficiency that attempted to restore their political power and international stance in the world. However, even at that time, according to the historian de Montchrétien of late 19th century, this system was only possible through widespread protectionism, colonialism, industrial subsidies, and monopolization of the national industries and commerce. Another permanent factor was the abuse of the workers and the consumers through denying competition and goods from cheaper sources and through disenfranchisement and abuse of their rights and freedoms. This policy mix then commands a lack of economic freedom and a form of enlightened or rationalized absolutism, which will be a trademark of other movements advocating self-sufficiency.

¹¹ Noakes, T. C. (2021) "Mercantilism", [in]: *The Canadian Encyclopedia*, published on February 7, 2006, last edited on April 1, 2021. Available [online]: <https://www.thecanadianencyclopedia.ca/en/article/Mercantilism>

¹² McNally, D. (1990) *Political Economy and the Rise of Capitalism: A Reinterpretation*, Berkeley, Los Angeles, Oxford: University of California Press. Available [online]: <http://ark.cdlib.org/ark:/13030/ft367nb2h4/>

The trademark of self-sufficiency is the dismantling of the rights and privileges of specific segments of the society, while promoting the economic interests of the producers that are controlled by the state. This shows the internal contradiction and failure of the self-sufficiency, which is maybe more problematic than the external one of economic mismanagement. An attempt at the lasting economic prosperity was, in principle, impossible without a government that has consistently relied on the increasing exploitation of the poorest layers of the population¹³.

THE 20TH CENTURY TOTALITARIANISM

Following the end of WW1 and the end of the first wave of globalization, many nations in Europe succumbed to the calls for the totalitarian projects of a communist or fascist nature. Even though these two movements found themselves on the opposite ends of the ideological spectrum, they both have in common a placement of the individual within the interests of the collective, which takes precedence, whether it is the nation or the class. As a result, despite different arrangements in some aspects of the economy, both regimes understood the economy to fulfil the objectives of the state – either through outright nationalization/collectivization or through a form of a command economy where production has been directed towards militarization.

Nazi Germany

The key economic arguments underlying the autarkic policy in the post-WW1 environment was vocalized in the countries suffering from heavy economic crises. In the case of Germany, the Weimar republic was a despised regime seen as imposed

¹³ de Montchrétien, A. (1889) *Traicté de l'oeconomie politique dédié en 1615 au roy et la reyne mere du roy*, Paris: Librairie Plon.

by the winning countries through the Versailles agreement. Adolf Hitler claimed a considerable blame for the defeat on the capacity of UK, France, and the United States to supply the goods and utilize the workforce from overseas to sustain the wartime economy.

Since Germany commanded no such colonial resources, Hitler defined the necessity of Lebensraum combined with a need to ensure that Germany can fight any future



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war relying purely on its own resources, to avoid the crippling effects of the economic blockade from the North or the Mediterranean seas. In the WW1, the Allied blockade resulted in malnutrition and the death of 600,000 Germans. The main issue was the need to pay for industrial and food imports, which the Nazi regime could not make Germany self-sufficient in.

The actions employed to attempt to achieve this goal were, again, hard to swallow from the liberal perspective. The measures came partly in the form of the confiscation of the property from the Jews and other *enemies of the regime*. The attempts to boost exports were undercut by the economic crisis and lack of demand from other countries. Germany had to resort to a form of quotas and restrictions for consumption combined with a cut on imports, which

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THE KEY ECONOMIC ARGUMENTS UNDERLYING THE AUTARKIC POLICY IN THE POST-WW1 ENVIRONMENT WAS VOCALIZED IN THE COUNTRIES SUFFERING FROM HEAVY ECONOMIC CRISES

created a huge strain on the domestic resources – in agriculture, mining, and heavy production. This situation led to abuse of the workers' rights, where freedom of association into independent labor unions was prohibited¹⁴.

20th Century Socialist Movements

Similar attempts at the autarkic peacetime society were recorded in the Soviet Union, which rushed toward economic isolation at an unprecedented rate in any peacetime industrial economy. The peak autarkic nature of the Soviet economy was reached by the mid-1930s and became the characteristic feature of Soviet economic policy. Since the end of WW2, foreign trade in the Soviet Union rose rapidly due to the expansion of its geopolitical position and a growth of favorable regimes in the Eastern Europe, Asia, and Africa. The development of the 1930s was a result of the combination of a sharp curtailment of trade relations with the world and a setup of a planned economy from 1928 onwards.

The First and Second Five-Year Plans (1928/29-1932, 1933-37) were deliberately directed at the pursuit of the economic autarky to limit dependence on foreign trade as much as possible, with a focus of importing only the machinery that would subsequently help produce everything at home. The economic collapse and stagnation of Soviet foreign trade in the 1930s was attributed to external factors outside the control of the Soviet planners.

The internal policy of nationalization and the abuse of property rights, as well as independent labor organization, had been among the integral parts of economic

¹⁴ Evans. R. J. (2021) *Autarky: Fantasy or Reality?*. Available [online]: <https://www.richardjevans.com/lectures/autarky-fantasy-reality/>

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THE PEAK AUTARKIC NATURE OF THE SOVIET ECONOMY WAS REACHED BY THE MID-1930s AND BECAME THE CHARACTERISTIC FEATURE OF SOVIET ECONOMIC POLICY

policy to make this push possible¹⁵. In addition, in the post-WW2 environment, the autarkic economic policy was adopted by many countries and in different schools of thought – including syndicalism, leftist populism, and African socialism¹⁶.

THE NEW AGE OF AUTARKY: WHERE DOES THE SELF-SUFFICIENCY ARGUMENT STILL STAND STRONG?

Despite this historical track record of economic mismanagement and abuse of individual rights, the idea of self-sufficiency manages to make a comeback to the

¹⁵ Dohan, M. R. (1976) "The Economic Origins of Soviet Autarky 1927/28-1934", [in]: *Slavic Review*, Vol. 35 (4), December. Available [online]: <https://www.cambridge.org/core/journals/slavic-review/article/economic-origins-of-soviet-autarky-1927281934/127F025AAD6EFCBC74AA0F009B24ECC7>

¹⁶ Corporate Finance Institute (2021) *Autarky*. Available [online]: <https://corporatefinanceinstitute.com/resources/knowledge/economics/autarky/>

public discourse in a regular manner. Following the end of the Cold War, the world has entered a brief period of economic and political liberalization yet again – a state which Francis Fukuyama termed *the End of History*, as he suspected all countries would find this to be the superior form of economic and political structure. This idea was associated with a removal of barriers between the East and West, development of economic ties between the U.S., European Union, and countries of Central and Eastern Europe¹⁷.

Unfortunately, from the liberal perspective, this honeymoon period was short-lived and has been since reversed in many countries. Numerous authors (including Malcolmson or Edgerton) point to the Brexit referendum and Donald Trump election, as well as new authoritarian and expansionist trends of Russia and China, to be the signs of a new era of international politics that can signal the geopolitical race and growth of animosities among the previously converging countries. Recently, this phenomenon may be observed even in India, under the nationalist populist government of Narendra Modi. Besides the geopolitical tensions, nations are beginning to go back to the policies of protectionism driven by emotional appeal by the politicians who attempt to play to the fears of immigration and disruptive innovation¹⁸.

However, it is incorrect to assume that there was ever a genuine embrace of economic liberalism – even across Western Europe in the post-WW2 environment. This

¹⁷ Fukuyama, F. (1989) "The End of History?", [in]: *The National Interest*, Vol. 16, pp. 3-18. Available [online]: <https://history.msu.edu/hst203/files/2011/02/Fukuyama-The-End-of-History.pdf>

¹⁸ Malcolmson, S. (2021) "New Age of Autarky", [in]: *Foreign Affairs*, April 26. Available [online]: <https://www.foreignaffairs.com/articles/usa/2021-04-26/new-age-autarky>

phenomenon may be illustrated by the fact that the foundation of the European partnership was founded on the protectionism of the agricultural sectors in large European countries, as well as relatively restrictive policy of economic tariffs against imports from third countries.

Moreover, the COVID-19 crisis has had a twofold effect on the issue of economic self-sufficiency. On the one hand, there has been a very strong push towards the digitalization of economic activity, which has been motivated by the lockdowns and the detrimental effects they have had on both sellers and buyers across the economic sectors. The result has been a massive shift towards international retail trade, digitalization of processes, and removal of borders for the retail for the future. The downside has been a resurgence of the topic of self-sufficiency as a necessity due to the possibility of a crisis – such as the one the world found itself in¹⁹.

Emergencies such as the COVID-19 pandemic are often a very potent ground for panic measures and policies driven by fear and misinformation. The first one that comes to mind is the need to spend money, which always comes as a response to a crisis, – be it a terrorist attack, economic recession, or a pandemic. More than that, liberals are fighting the greatest myth of all rooted at the heart of fears that drive the calls for self-sufficiency.

Namely, when citizens feel threatened, they look up to the government for protection. Thus, the population voices loud calls for the protection of the national resources and minimization of dependence on other countries – the so-called

¹⁹ Edgerton, D. (2020) "The New Age of Autarky", [in]: *New Statesman*, June 10. Available [online]: <https://www.newstatesman.com/politics/economy/2020/06/new-age-autarky>

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DESPITE THIS HISTORICAL TRACK RECORD OF ECONOMIC MISMANAGEMENT AND ABUSE OF INDIVIDUAL RIGHTS, THE IDEA OF SELF-SUFFICIENCY MANAGES TO MAKE A COMEBACK TO THE PUBLIC DISCOURSE IN A REGULAR MANNER

disaster protectionism. Such a trend has been on full display during the pandemic: external borders of the EU were shut, hitting international trade, which dropped like a rock, thus affecting the supply of food, medical equipment, and other things across the continent. The world literally depended on the corporations to have their own jets to ship the material necessary to develop the COVID-19 vaccines²⁰.

²⁰ Norberg, J. (2020) *Open: The Story of Human Progress*, Atlantic Books.

At the same time, the protectionism did not end there. After several decades, many new borders have been erected within the European Union, free movement was suspended, leading to people often being stuck abroad, and others losing jobs and livelihood. This was the time when the calls for self-sufficiency strengthened. France and Germany openly banned exports of protective equipment and France even began confiscating foreign equipment sent through France. Similar emergency measures have appeared in CEE region as well. The Czech Republic introduced export restrictions on medicines and medical devices (including face masks) in response to the COVID-19 crisis²¹. Slovakia has also strengthened a grip on the maximum use of domestic resources through an emergency law, which coerced all doctors and nurses to be available under the threat of legal action for the sake of stability of the health care system.

At the time when international trade was needed the most, governments did what they do best: reacted instinctively and destroyed the reputation internally as well as externally. The European Union has challenged the sanctity of its own rules on which millions of people were relying for their own livelihood and many people moved their business to unofficial channels, strengthening the push for digital solutions and the calls to avoid compliance with the official legislation in times of crisis.

Of course, the loudest critics putting the blame on the EU come from the extreme right and left wings, calling for even more illiberal tendencies and a full subordination

²¹ *Gorissen Federspiel* (2020) "COVID-19's Impact on the Globalized World – Export Controls", March 17. Available [online]: <https://gorissenfederspiel.com/en/knowledge/news/covid-19s-impact-on-the-globalized-world-export-controls>

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NATIONS ARE BEGINNING TO GO BACK TO THE POLICIES OF PROTECTIONISM DRIVEN BY EMOTIONAL APPEAL BY THE POLITICIANS WHO ATTEMPT TO PLAY TO THE FEARS OF IMMIGRATION AND DISRUPTIVE INNOVATION

of the economy to the needs of the state. They criticize not the government malfunction as a principle, but a failure resulting from insufficient action²².

CONCLUSIONS: WHY WE NEED TO FIGHT SELF-SUFFICIENCY

While the effects of such an economic path for personal rights or liberties – or even for capitalism and the business

²² Norberg, J. (2021) "COVID-19 and the Danger of Self-sufficiency: How Europe's Pandemic Resilience was Helped by an Open Economy", [in]: *European Centre for International Political Economy*, March 2021. Available [online]: <https://ecipe.org/publications/covid-19-and-self-sufficiency/>

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environment, – the foundation of the argument of self-sufficiency has considerable negative impacts on so many elements taken for granted in a free society. Once the idea of self-sufficiency takes hold, through emotional or political rationale, it has the power to destroy the rights of the consumers and producers, undermine competition, destroy quality of life, and lay the foundation for the ever-present government that can destroy all aspects of a free society.

In this article, a very concise history of attempts at self-sufficiency, or autarky, has been presented, with significant negative consequences becoming dominant in each of those attempts. From slavery, through colonialism, totalitarianism, wars, and dispossession of vulnerable communities, the idea of self-sufficiency can ultimately destroy the very foundation of today's economic liberalization that we once thought unquestionable. Therefore, we need to engage with the emotional appeal of self-sufficiency (everywhere we see it!), and diligently explain how markets and free trade work across different sectors – including agriculture, medicine, or natural resources.

Just because something is considered indispensable, it does not mean the rules of economy and a free society will not apply. Quite the contrary, the argument that the more we value something, the more we should resist the government takeover, needs to be heard.



*

MARTIN
REGULI

Senior Analyst and a Project Manager at the F. A. Hayek Foundation, a leading economic think tank based in Slovakia, focusing primarily on the areas of economics, business environment, and social policy at the level of Slovak Republic and the European Union



Rise and Fall of Autarky



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TOMASZ
KASPROWICZ

Humans are a social species. This is not unique within mammals, as many live in packs. These animals enjoy support of other group members, but their roles are mostly uniform. At the same time, the level of specialization humans developed is barely comparable with social insects like ants or bees. In fact, over the course of civilization's development, very few humans could perform all tasks required for survival. This strategy is risky, of course, as detachment from civilization likely spells death. That is why in some cultures exile was used instead of the death penalty, because it was mostly equivalent, especially in harsher environments¹.

On the other hand, specialization yields huge benefits. It allows accumulation of specialized capital and allows one to gain *know-how*, which increases efficiency exponentially. The problem is that the producer is limited in her consumption to her product. Higher production allows one to enjoy higher standards of living, but only if trade is possible.

The choice between being a generalist or specialist applies to individuals, tribes, nations, societies, and states. We observed many approaches over the course of the years, with societies more open to trade and more reclusive. There were also various explanations to particular decisions based on historic animosities, religion, culture or even geography. But even in pre-historic times groups of people met and traded. Long distance trade took place at least 150,000 years ago which is about half of our existence as a species². In order to

¹ Firth, R. (1978) *Banishment and Exile: Reflections on a Tikopia Practice*, Paideuma: Frankfurt Frobenius Institute.

² Watson, P. (2005) *Ideas: A History of Thought and Invention from Fire to Freud*, New York: HarperCollins Publishers.

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OVER THE COURSE OF CIVILIZATION'S DEVELOPMENT, VERY FEW HUMANS COULD PERFORM ALL TASKS REQUIRED FOR SURVIVAL

facilitate trade between otherwise suspicious or even hostile groups, people created rituals³.

The decision whether the state should be a self-sufficient generalist and independent from the outside world, or a specialist and fulfil the needs of its citizens via trade is an important political issue highly debated nowadays. Of course, the decision is very rarely between the two extremes: pure autarky versus full openness. This is because very few countries could support the size of its population on current levels given limits in their natural resources (not to mention quality of living). In fact, in many cases even the food production could be a challenge as demonstrated by the case of the most autarkic state nowadays – North Korea⁴.

It is more a debate about the degree of openness, and it was recently amplified by the COVID-19 pandemic. And the arguments go both ways. On the one hand,

³ Flood, J. (1983) *Archaeology of the Dreamtime*, Sydney: Angus & Robertson.

⁴ <https://www.nytimes.com/2021/06/16/world/asia/north-korea-food-shortage.html>



GLOBAL PRODUCTION IS VERY FRAGILE IN CASE LOGISTIC CHAINS ARE BROKEN

access to vital medical supplies is of paramount importance in such situations. As the global demand grew, shortages appeared and countries that were the centers of production of essential medical supplies could stop exports to fulfill their needs first. Such was the case of Germany, which stopped exports of protective gear⁵. This act was met with outrage and was quickly criticized by EU institutions, but still the fear that such situations can happen again under even more dire circumstances remained⁶. This Shortage in the time of global need is the first argument for more autarky or self-sufficiency.

The second argument was based on the scope of international trade that allows for faster spread of epidemics in the first place. Moreover, global production is very fragile in case logistic chains are broken. In March 2020, many feared the factories would halt due to raw materials and component

⁵ <https://www.bloomberg.com/news/articles/2020-03-09/germany-faces-backlash-from-neighbors-over-mask-export-ban>

⁶ <https://www.ft.com/content/1bbdfbd0-5f8e-11ea-b0ab-339c2307bcd4>

shortages. These were not as bad as anticipated, but quite persistent in areas like construction⁷.

However, recent months have shown an argument in favor of cooperation and openness regarding vaccines. The most successful ones were the result of international cooperation. The Astra-Zeneca vaccine is a joint success of Sweden and the United Kingdom, while the Pfizer vaccine is the result of joint forces of the United States and German companies. On the other hand, vaccines created by countries that are focusing on being less cooperative (like Russia or China), turned out to be less successful. Nonetheless, the discussion whether to be independent and rely on one's own resources and activity, or to specialize and trade is far older than recent events and is one of the foundations of today's economics.

TRADE IS NOT A ZERO-SUM GAME

Early mercantilists (from the 16th century) believed that gold equals wealth, therefore the state should do anything in its power to obtain as much of it as possible. One of the main sources was international trade, but it was state-controlled in such a manner that exports were encouraged by subsidies, whereas imports were discouraged via tariffs. The aim was to create a trade surplus and, therefore, gold inflow (while gold outflow was often banned)⁸. Such an approach in the economy is an extreme form of autarky as it not only encourages self-sufficiency but countries are supposed to produce more than they need for export as well.

⁷ <https://constructionmarketexperts.com/en/news/pandemic-causes-shortage-of-raw-materials-price-rises-on-construction-chemicals-market/>

⁸ Sargent, A. (1899) *Economic Policy of Colbert*, London: CreateSpace Independent Publishing Platform.



MERCANTILISTS DID NOT LEARN FROM THE STORY OF KING MIDAS, WHICH STATED THAT GOLD ON ITS OWN IS NOT EDIBLE AND HAS VERY FEW USES OVERALL

Mercantilists did not learn from the story of king Midas, which stated that gold on its own is not edible and has very few uses overall, therefore it is not the same as wealth, well-being, or power. In fact, such a policy adopted by several countries – chiefly France and Great Britain – led to competition between states as trade was perceived as a zero-sum game with the seller winning over the buyer. Such approach led to animosities, trade wars, and conflict with colonies that were supposed to provide cheap raw materials to fuel the export of goods.

Criticism of mercantilism gave rise to modern economics starting with Adam Smith whose *The Wealth of Nations*⁹, is mostly a critique of mercantilism. He pointed out

⁹ Smith, A. (2002) *The Wealth of Nations*. Oxford, England: Bibliomania.com Ltd. Retrieved from the Library of Congress. Available [online]: <https://lccn.loc.gov/2002564559>

that mercantilists failed to distinguish between *wealth* and *money*. They also failed to notice that increased amounts of gold in one country would lead to the decrease of value of gold (or inflation) and an increase of its value in other countries. Such situation would create a pressure to reverse the flow of goods. Only harsh state policy could prevent the flow of gold from countries that amassed it to other countries as it would be very profitable to do so. An example of such a situation could be glimpsed in the 1964 *007 Goldfinger*¹⁰ movie, where a villain creates fortune by smuggling gold from UK where it is relatively cheap.

But even so many years after being discredited, mercantilist ideas are still alive as they are easy to explain and remain appealing to the public. Those in favor of protectionism often bring up the protection of particular jobs. They omit, however, that the cost of these policies are higher prices, a smaller selection of goods, and lost jobs in other industries.

One of the main issues constantly brought up by Donald Trump, a former president of the United States, was the trade deficit with China amounting to over USD 300 billion per year¹¹, which led to a trade war that he dubbed "easy to win"¹². Apparently, this was not so easy as the deficit under Trump actually further increased¹³.

Seeing the deficit as *dollars lost by the U.S.* is a wide-spread false assumption, while the opposite is actually true. As we know

¹⁰ Hamilton, G. (1964) *Goldfinger*, United Artists.

¹¹ <https://www.census.gov/foreign-trade/balance/c5700.html>

¹² <https://www.cnbc.com/2018/03/02/trump-trade-wars-are-good-and-easy-to-win.html>

¹³ <https://www.bloomberg.com/news/articles/2021-01-11/how-china-won-trump-s-good-and-easy-to-win-trade-war>

now, import is the nice process of getting goods from the others. Export is actually a painful process when we have to part with what we have produced. If we could import more than export on a perpetual basis, we would be better off as this is equal to a situation like constantly receiving gifts from abroad. A typical country cannot do it in the long run as the currency exchange will eventually bring trade to balance – exactly as described by Adam Smith in the case of gold. The United States is an exception as it provides global currency and can, therefore, run with almost perpetual deficits enjoying the goods they get for free from the rest of the world. This is the part that Trump failed to realize.

Mercantilists also failed to recognize benefits of trade and comparative advantage. Up to the works of David Ricardo, people believed that given free trade, a good would be produced only by a country that can do it the cheapest (absolute advantage). Ricardo showed that even a country that is not the best in anything can still benefit from trade and specialization if they are able to produce something cheaper, in relative terms¹⁴. Comparative advantage allows countries that are the best at producing certain goods to focus and specialize on them and purchase other goods abroad – even if they could produce the imported goods cheaper as well.

The gains from specialization for both parties are higher than without trade. Ricardo's ideas were further developed in the Ricardo-Viner model¹⁵. Later, the Heckscher-Ohlin model¹⁶ finally extended it on

¹⁴ Ricardo G. (1891) *Principles of Political Economy and Taxation*, London: John Murray.

¹⁵ Ishikawa, J. (2000) "The Ricardo-Viner Trade Model with an Intermediate Good", [in]: *Hitotsubashi Journal of Economics*, pp. 65-75.

¹⁶ Ohlin, B. (1933) *Interregional and International Trade*, Cambridge: Harvard University Press.

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EVEN SO MANY YEARS AFTER BEING DISCREDITED, MERCANTILIST IDEAS ARE STILL ALIVE AS THEY ARE EASY TO EXPLAIN AND REMAIN APPEALING TO THE PUBLIC

more than two countries and the Dornbusch-Fisher-Samuelson model on more goods as well¹⁷. Very few theoretical models show the advantages of protectionism, and they work only in very specific situations¹⁸.

The above-mentioned models of international trade were the beginning of a long way of abandoning mercantilist views. However, it was politically difficult. Local industries were used to protection from foreign competition and could extract significant rents from high prices in the domestic market. Lowering these shields often resulted in bankruptcies and unemployment. It is difficult to explain to people that were laid off

¹⁷ Dornbusch, R., Fischer, S., and P.A. Samuelson (1980) "Heckscher-Ohlin Trade Theory with a Continuum of Goods", [in]: *The Quarterly Journal of Economics*, Vol. 95(2).

¹⁸ Krugman, P. R. (1987) "Is Free Trade Passe?", [in]: *Journal of Economic Perspectives*, Vol. 1(2).

today that things will get better over time as their needs need to be satisfied right now. That is why the process was rather slow and is still ongoing. Great Britain removed mercantilist regulations over the course of the 18th and 19th century, while France stuck to Colbertism until the French Revolution. In Germany, mercantilism was applied well into the 20th century as it was one of the cornerstones of the German Empire and then the Third Reich.

THE ROAD TO OPENNESS

The end of World War II marked the end to mercantilism and isolationism – and not only for economic reasons¹⁹. Apparently, countries that are closely linked are less likely to wage a war – and another European war was something nobody wanted. The European Coal and Steel Community was the first European integration attempt – focused on limited scope but a crucial one for military. But the experiment was so successful that it quickly developed in the highest form of economic integration: the common market. The case of European integration was so successful that many other attempts at economic integration followed at various levels.

The simplest type of trade cooperation system is a preferential trade area (PTA), which bind two or more countries to reduce trade barriers, quotas, tariffs, and other obstacles to trade in some areas, although not abolishing them completely. The largest PTA is governed by the World Trade Organization (WTO), which consists of 164 members. It officially started operating in 1994, replacing the General Agreement on Tariffs and Trade (GATT) established in 1947 – just after World War II. Efforts in GATT rounds managed to help reduce the overall level of tariffs

¹⁹ Lee, J. W. and J. H. Pyun (2016) Does Trade Integration Contribute to Peace?, [in]: *Review of Development Economics*, 20(1), 327-344.

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COUNTRIES THAT ARE CLOSELY LINKED ARE LESS LIKELY TO WAGE A WAR – AND ANOTHER EUROPEAN WAR WAS SOMETHING NOBODY WANTED

from 22 % in 1947 to 5 % in 1999²⁰. Due to wide membership, the WTO rules are the baseline of global trade, and in most cases have the worst possible terms of trade. But often countries make bi- or multilateral agreements to improve them.

Still, this nearly world-wide agreement was not ambitious enough for some partners which created a multitude of multilateral and bilateral agreements that provide even lesser hurdles to trade than the WTO. Such PTAs with even broader scope and deeper reductions in tariffs are called free trade areas (FTAs). The list of such agreements is long, but some of the most prominent examples are the United States-Mexico-Canada Agreement (USMCA, 2020), which replaced NAFTA (1994) due to a whim of

²⁰ Goldstein, J. L., Rivers, D., and M. Tomz (2007) "Institutions in International Relations: Understanding the Effects of the GATT and the WTO on World Trade", [in]: *International Organization*, Vol. 61(1), pp. 37-67.

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AT THIS POINT, TTIP SEEMS DEAD, AS THE NEW U.S. ADMINISTRATION DOES NOT SEEM TO BE INTERESTED IN REVIVING IT

Donald Trump²¹, and CETA – between the European Union and Canada (2016, applied provisionally). The biggest in terms of area is the African Continental Free Trade Area (AfCFTA), which is supported by all countries of the continent, except for Eritrea, and has an ambition to eliminate 90% of tariffs within 10 years²².

Furthermore, Transatlantic Trade and Investment Partnership (TTIP) was the largest trade initiative ever negotiated, however, the agreement between the EU and the U.S. was never finalized. Donald Trump withdrew from negotiations and then entered a trade war with the EU instead. It is estimated that TTIP would have boosted EU's economy by EUR 120 billion, the U.S. economy by EUR 90 billion²³.

TTIP and CETA were also a target of anti-globalist movements, claiming some

²¹ <https://edition.cnn.com/2020/07/01/politics/usmca-nafta-replacement-trump/index.html>

²² <https://www.humanprogress.org/africa-tries-free-trade/>

²³ <https://www.foreignaffairs.com/articles/united-states/2013-07-10/getting-yes-transatlantic-trade>

aspects of the agreement could be detrimental. Some arguments were clearly mercantilist and based on the premise that local industry should be protected from international competition in order to protect jobs. Others were largely unfounded – like fears of detrimental effects to local quality standards. Others seemed quite sensible placing possibly too many rights in the hands of international corporations and freeing them from local jurisdiction in some cases. But this could have been fixed without throwing the agreement out of the window. At this point, TTIP seems dead, as the new U.S. administration does not seem to be interested in reviving it.

A step forward in trade integration is a customs union, which is a free-trade area (as described before) with a common external tariff. Common tariffs make trade even easier as in an FTA for actual free trade goods were required to have a certificate of origin, so that importers could not arbitrage on differences in tariffs between countries. When tariffs are harmonized, no such thing is necessary.

Examples of organizations that are (or aspire to be) customs unions are Andean Community (Bolivia, Colombia, Ecuador, Peru), East African Community (Burundi, Kenya, Rwanda, South Sudan, Tanzania, Uganda), South African Custom Union (Botswana, Eswatini, Lesotho, Namibia, and South Africa). Some of the customs unions also reach for a common currency – like the Economic and Monetary Community of Central Africa (Angola, Burundi, Cameroon, Central African Republic, Chad, Republic of the Congo, Democratic Republic of the Congo, Equatorial Guinea, Gabon, São Tomé and Príncipe and Rwanda), which share CFA Franc, or West African Economic and Monetary Union (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Niger, Senegal, Togo) – also sharing CFP Franc.

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IN RECENT YEARS, EUROPEAN INTEGRATION HAS STAGNATED DUE TO VARIOUS POLITICAL PROBLEMS AND ROGUE STATES LIKE HUNGARY OR POLAND TRYING TO REVERSE AND LIMIT THE EU TO THE ROLE OF A SINGLE MARKET

Yet another type of integration is a single market. It gives the freedom of movement of not only goods but also capital and labor, enterprise, and services. It also has common regulations concerning product safety and standards. The European Economic Area is one such organization, and consists of EU countries (but not automatically) and Norway, Iceland, and Lichtenstein.

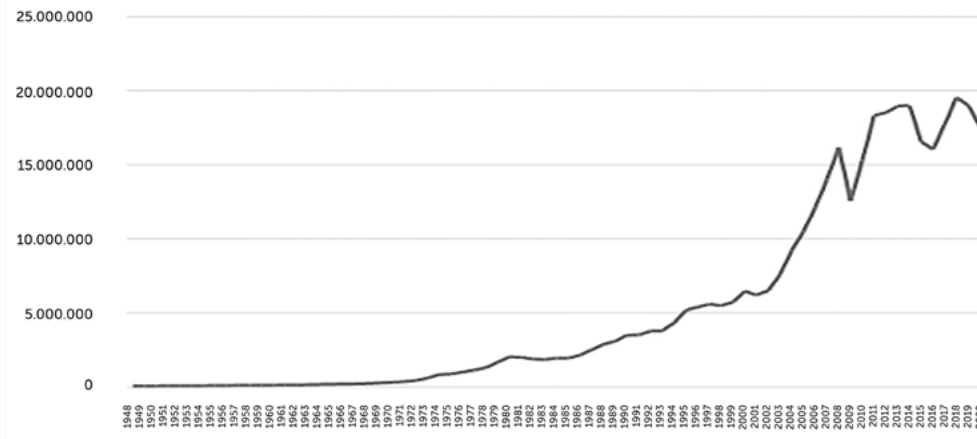
The most integrated countries form economic unions. They have both a common market and a customs union. Most notable examples are the Caribbean Single Market and Economy (Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago), Eurasian Economic Union (Armenia, Belarus, Kazakhstan, Kirgizstan, Russia), MERCOSUR (Argentina, Brazil, Paraguay and Uruguay), Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE), and the Central American Integration System (Belize, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama). Some of these are also reaching for a common currency – most notably the Switzerland-Lichtenstein union and the European Union.

The latter is also an example of the integration that reaches even farther with some common fiscal policy, debt, and political bodies. In recent years, European integration has stagnated due to various political problems and rogue states like Hungary or Poland trying to reverse and limit the EU to the role of a single market. Yet, recent crises were used to further integration. The 2008 financial crisis pushed for a common banking and financial oversight policy. The COVID-19 crisis allowed for introducing common debt. Too deep integration was also one of the reasons of Brexit – the first departure from a continuously expanding organization.

OPENNESS CHANGED THE WORLD (FOR THE BETTER)

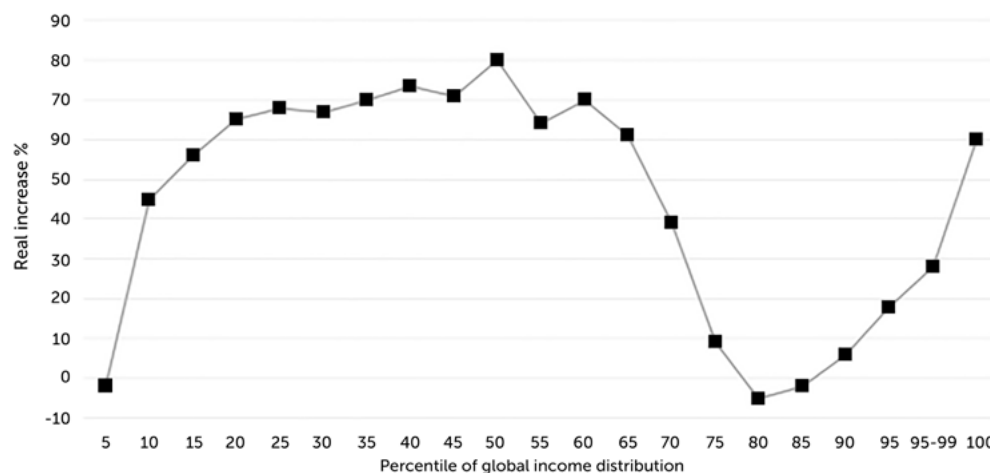
The result of trade liberalization efforts was unprecedented growth of international trade slowed only by major global crisis and rebounding quickly after [See: Figure 1]. But that was to be expected. There were even more effects.

Figure 1: Global exports (merchandise, millions USD, 1949-2020)



Source: WTO

Figure 2: Elephant chart: Change in real income growth by income percentile (in the years 1988-2008)

Source: Lakner, C. and B. Milanovic (2016) "Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession", [in]: *The World Bank Economic Review*.

“ AGRICULTURE IS USUALLY SEEN AS A SPECIALIZA- TION THAT CON- DEMNS TO PERPET- UAL POVERTY

Probably the most important liberalization effect was a decrease in global inequalities. This was best presented by the famous elephant chart²⁴ [See: Figure 2].

Figure 2 shows how the income grew for various groups of people. People in the bottom decile did not increase their income level. These are mostly people locked in atrocities of wars or politically forced autarky (North Korea). However, income in every other decile up to the 7th increased significantly²⁵. This was the effect of emerging economies in countries that managed to narrow the income gap. And the growth

²⁴ Lakner, C. and B. Milanovic (2016) "Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession", [in]: *The World Bank Economic Review*, Vol. 30(2).

²⁵ It is important to note that we are comparing deciles not people. Say we see that income in the wealthiest decile increased by 60%, it does not mean that it is true for every person that was in this group in 1988. It is not even true on average. In fact, this number will be much lower than 60% as some of these people could lose all the income and end up in the poorest decile. So, we are not comparing the same people but cohorts. We can say that the richest had 60% higher income in 2008 than in 1988 but the rich at both points in time could be completely different people. Same goes for any other decile. The income of the poorest did not stagnate and many managed to climb out of poverty, while other groups lost everything usually due to war.

was possible thanks to ease of trade which allowed multinational corporations to spread their logistic chains all around the globe.

The best-known example of a country that benefited from this solution is China, which managed to lift seven hundred million people out of poverty²⁶. Similar effects are visible in many other Asian and South American countries. This was mainly due to the global division of labor in line with the ideas of Ricardo and his followers. As a result, we have seen the rise of a huge global middle class. The rise of middle class happened in countries that provided cheap labor in manufacturing – the area where they had a comparative advantage. The reduction of poverty is the slowest in Africa, where the integration into global value chains did not take off [See: Figure 3]²⁷. In effect, global income distribution is now getting quite like the one existing in the times before the industrial revolution and domination of the West.

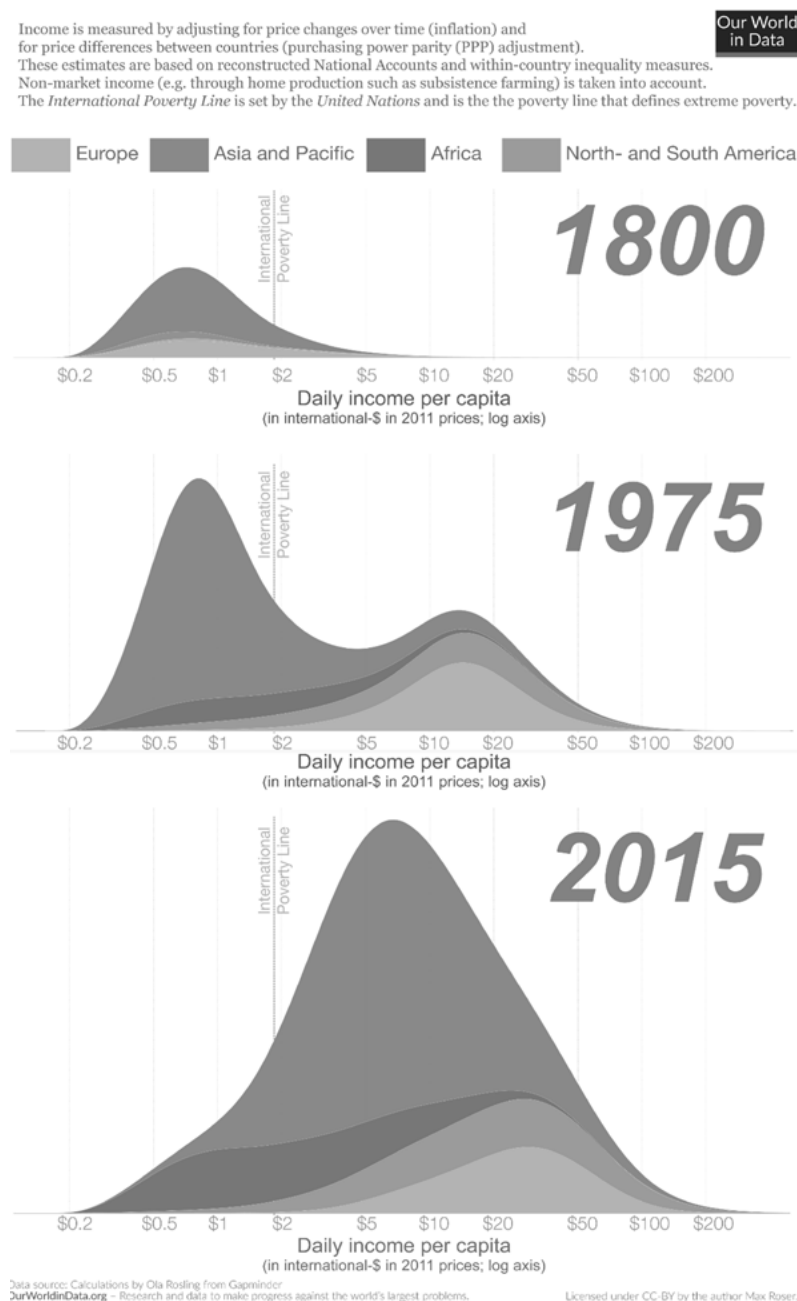
One of the criticisms of Ricardo's ideas was the indication that focusing on comparative advantage may yield unfavorable long-term results. If a country has a comparative advantage in the industry that yields low margins, it may get locked into activities that preclude further growth. Agriculture is usually seen as a specialization that condemns to perpetual poverty²⁸. This fear was also extended to low-technology manufacturing and created unease in many countries that an increase in the standard of living may be short-lived, and the country will remain just a reservoir of cheap labor or face stagnation when the level of wages converges with

²⁶ <https://www.bbc.com/news/56213271>

²⁷ <https://blogs.worldbank.org/opendata/global-poverty-reduction-slowing-regional-trends-help-understanding-why>

²⁸ Galbraith, J. (2008) *The Predator State: How Conservatives Abandoned the Free Market and Why Liberals Should Too*, New York: First Free Press.

Figure 3: Global income distribution in 1800, 1975, and 2015



Source: Our World in Data

main trading partners. This problem was called *middle income trap*²⁹ – the idea that it is quite easy to get out of poverty, but hard to reach high income levels. It was hard to test whether such a premise is true with East-Asian countries as the disparity in the standards of living is still far too large.

To avoid such a scenario, some countries like Taiwan or South Korea decided to build up their capabilities under protectionism first and only then open for trade³⁰. These formerly poor countries became industrial and technological powerhouses of the world thanks to this strategy. So, it seems that maybe protectionism is a good idea after all. But then – maybe not.

Here we should turn to the example of how opening economies helps to transform and modernize companies, like in the case of post-communist countries after the fall of the USSR. These countries followed various paths in their transformation to the market economy. Some decided to rapidly reform the economy via privatization and mostly opening their economy to exports and imports. These are the V4 countries and the Baltic States. Others chose protecting their companies from foreign competition – like Ukraine, Belarus, or Russia. After thirty years, the countries that decided to drop protectionism are far better off and even managed to become developed economies, showing that the middle-income trap might be just a theoretical phenomenon [See Figure 4].

Companies in post-Soviet countries were facing fierce competition and had to innovate and modernize quickly. At the same time, companies in countries that decided

²⁹ Larson, G. M., Loayza, N., and M. Woolcock (2016) "The Middle-Income Trap: Myth or Reality?", [in]: *World Bank Research and Policy Briefs*, (104230).

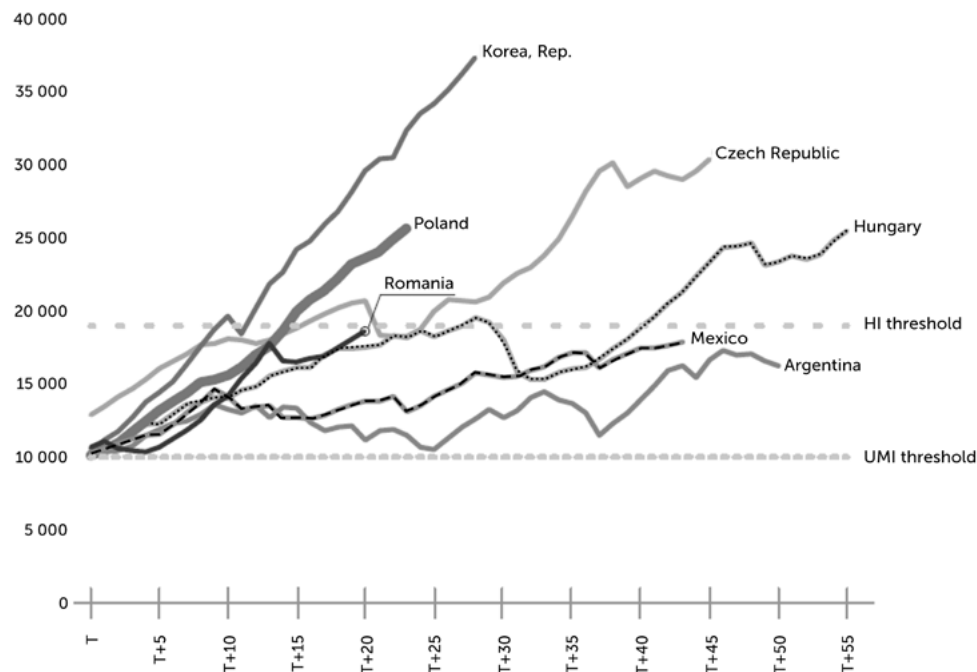
³⁰ Doo-yun, H. (2001) "Korea's International Trade Policy in the Global Age", [in]: *East Asian Review*, Vol. 13(3).

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to protect them had no pressure to modernize. Therefore, when the time to open the economy came, they were still not ready for competition and managed to extend the protection. Eventually, protectionists ended up with inefficient and mostly corrupt economies requiring perpetual protection³¹.

³¹ Kasproicz, T. (2019) "30 Years of Freedom in CEE: Various Paths and Destinations", [in]: *Liberty Review*, No. 11.

Figure 4: Escape from middle income trap (GDP per capita in 2014, USD)



Source: WDI, Groningen Growth and Development Center
 Note: T=period when the country crossed Upper Mic threshold for good.

It seems that short-term protectionism may help in certain situations, but requires a lot of determination on the side of politicians to use the time efficiently in order to avoid complacency and corruption. Successful cases were performed in authoritarian states that forcefully implemented economic policies (like making labor unions illegal) and focused on survival from external enemies (China in the case of Taiwan, North Korea in case of South Korea)³². And even their corruption became a problem – as in

the case of Korean chaebols, whose problems were one of the main reasons for East-Asian currency crisis³³.

The right-most part of the elephant chart is, however, the biggest threat to free trade and international cooperation. The world's rich – or those who we call *middle class* in the West – have seen their incomes stagnating in recent decades. At the same time, incomes of the super-rich went up as much as in the case of global middle class [See: Figure 2]. This was the effect of outsourcing manufacturing, which benefited

³² Kim, K. S. (1991) *The Korean Miracle (1962-1980) Revisited: Myths and Realities in Strategy and Development*, Helen Kellogg Institute for International Studies, University of Notre Dame.

³³ Krueger, A. and J. Yoo (2001) *Chaebol Capitalism and the Currency-Financial Crisis in Korea*, NBER Conference on Currency Crises Prevention.

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 OF POLITICIANS
 TO USE THE TIME
 EFFICIENTLY
 IN ORDER TO AVOID
 COMPLACENCY
 AND CORRUPTION

consumers via lower prices and capitalists via higher profits but harmed certain categories of workers. So, despite falling global inequalities, the inequalities within developed countries started rising.

This phenomenon gave rise to many populist movements, with Brexit and Donald Trump being the most prominent and harmful example. The issue of locally raising inequality was also tackled by the left-wing parties as their traditional focus on poverty is less and less appealing along with its demise³⁴. Inequalities are also heavily debated

by economists – starting with the monumental work of Thomas Piketty³⁵. However, the problem lies in the fact that inequality is not inherently a bad condition: both full equality and extreme inequality seem like a perverse situation. We do not know the optimal level of inequality, so, in many cases, it is hard to judge if the rise of inequality is good or bad for the wealth and prosperity of an economy.

It seems, therefore, that the only reasons and arguments for self-sufficiency are politically based, as the voluntary trade between well-meaning parties is beneficial for all parties involved. Even arguments concerning strategic sectors that should be kept in the country are not holding up in a fair and open environment. Yet, sometimes, trade might be used in malicious way and for political reasons.

Sales of gas and oil are one of the favorite weapons used by Russia towards former Soviet republics. Russia provides goods (mainly gas and oil) at lower than market prices to assure alliance and compliance with Russian wishes³⁶. Failure to comply is met with sudden cuts in supply and price hikes. The society of former Soviet republics are often accustomed to low energy prices and, thus, any changes were widely unpopular – and, hence, politically impossible. This simple scheme allowed them to subdue many former Soviet republics, with the goal of reintegration with Russia of at least some of them. The first one to go seems to be Belarus³⁷. Ukraine was one of the few countries that managed to get out

³⁵ Piketty, T. (2018) *Capital in the Twenty-First Century*, London: London Belknap Press.

³⁶ https://www.bakerinstitute.org/media/files/files/ac785a2b/BI-Brief-071817-CES_Russia1.pdf

³⁷ <https://www.atlanticcouncil.org/blogs/ukrainealert/soft-annexation-inside-the-russian-takeover-of-belarus/>

³⁴ <https://ourworldindata.org/extreme-poverty>

of such a situation, but only due to a high level of resolve in society – and at a great cost that is still increasing.

The decision about whether to be self-sufficient today is mostly hypothetical. Very few countries have tried adopting autarky and, notably, those who managed to do it typically bear great costs. This is because the decision to trade changes the structure of the economy by introducing specialization according to comparative advantage (or, sometimes, political decision). The benefits that follow in the form of lower prices, better selection of goods, and increasing income are enormous – even if introduced gradually and, therefore, not associated with opening the economy.

These benefits manifest radically in case trade is limited – for example, by protectionist policies. The recent lesson in the importance of free trade was learnt in the United Kingdom due to Brexit. Even modest turbulences in the flow of goods had quite a significant impact on the British economy³⁸. Also, the United States after the easy-to-win trade war lost estimated 0.3-0.7% of GDP in 2019 and estimated 300,000 jobs, although saving jobs was the main reason to enter this war³⁹.

The only real decision countries can make is to select particular industries or products and make sure they are independent from foreign producers. One reason might be the willingness to build up these industries and right after that, letting them compete in global markets. As the case of South Korea shows, this strategy may work to a certain point. However, the cases of many other countries illustrate that such shielding more

³⁸ <https://www.cer.eu/insights/cost-brexite-february-2021>

³⁹ <https://www.brookings.edu/blog/order-from-chaos/2020/08/07/more-pain-than-gain-how-the-us-china-trade-war-hurt-america/>

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THE DECISION ABOUT WHETHER TO BE SELF-SUFFICIENT TODAY IS MOSTLY HYPOTHETICAL

often leads to corruption and inefficient companies requiring protection in perpetuity. For most countries, it is far more likely to end up like Ukraine, not like South Korea.

Another reason for partial self-sufficiency may be based on the fear that the country that delivers a bulk of strategic products may use our dependence in order to gain the upper hand in future negotiations and, eventually, subdue us. Clearly, such a situation happened before in the case of post-soviet countries and their relationship with Russia. Responsible countries should be weary of such possibility. But an obvious solution is the diversification of sources – even if some suppliers are a bit more expensive. Also, it is a good idea to have ties with countries that are reliable and business oriented. If their products or services are a lot more expensive, it is a good point to start asking the question, why are we getting such a preferential treatment from our usual vendor. If something seems too good to be true, it probably is not that good after all. Then a country may decide to ensure diversification of supply even if that is costly. A good example of such approach is Polish investment in LNG terminal on the Baltic sea designed to accept deliveries

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THE CASE OF THE COVID-19 PANDEMIC HAS SHOWN THAT GLOBAL LOGISTIC CHAINS HAVE PROVEN TO BE QUITE RESILIENT, WHEREAS THE DISRUPTIONS – RELATIVELY SHORT-LIVED

from USA and the Middle East. In both cases gas is more expensive than delivery from Russia, but few were skeptical of the need to diversify even at a significant cost⁴⁰.

Finally, there is the argument of essentials that might be in short supply in case of a global crisis. In such a situation, producers may stop exports of crucial goods (like masks or protective gear). However, there are several aspects to be considered. Firstly, the truly global crisis is an extremely rare phenomenon. I know this may look strange written during a global pandemic, but this event is truly unprecedented.

⁴⁰ https://ec.europa.eu/regional_policy/en/projects/poland/upgrade-of-polish-ports-lng-terminal-to-strengthen-energy-security

Secondly, for the periods of disruption, states should be prepared – by having strategic inventory to cushion shortages. This approach is most likely much cheaper than sustaining inefficient factories *just in case*. Especially given the fact that a reasonable size of such a factory is far greater than the needs of one country and, hence, economic loss would also be significant.

Finally, the case of the COVID-19 pandemic has shown that global logistic chains have proven to be quite resilient, whereas the disruptions – relatively short-lived. What shook the people's confidence was not shortages themselves, but reactions of some countries (like Germany or France) limiting trade in essential items. This was, fortunately, quickly criticized and reversed by EU bodies⁴¹. It seems, therefore, there are better ways to ensure safety than promoting self-sufficiency.

⁴¹ <https://www.nytimes.com/2020/03/07/business/eu-exports-medical-equipment.html>



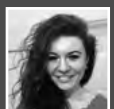
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TOMASZ
KASPROWICZ

Vice-President of Res Publica Foundation. Managing partner of Gemini, an IT company specializing in business process automation. Editor at Libertel and Res Publica Nowa



Czech Perspective on Self-Sufficiency Versus Specialization: Encouraging Autarky or Cooperation?



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Throughout the last year and a half, the COVID-19 pandemic has revealed weaknesses in healthcare, education, digitalization, and data collection, just to name a few. The shortages of *essential* goods experienced by many countries during the pandemic has inspired some to turn inwards, choosing to promote some form of quasi-autarky to protect themselves¹.

The arms industry has often been viewed through an autarkic lens due to military power's central role in realist security theory – military hardware is seen as *imperative* for survival. In the wake of the pandemic, however, the focus has been on healthcare equipment such as masks, medicine, vaccines, and ventilators. Countries want to avoid relying on the big producers in this industry – the European Union, the United States, China, and India. This might seem an intelligent move in theory, but autarkic countries lose out on significant productive potential.

Most supporters of autarky today favor self-sufficiency in selected sectors – such as arms, energy, medical equipment – rather than full autarky. Although not as damaging as outright isolationism, autarky can still limit countries' productive potential, harming their population in the long-term.

CURRENT EXPERIENCE

The Czech Supreme Audit Office examined the state's response to the pandemic in 2020. Specifically, it focused on the purchase of personal protective equipment and medical devices. From January 1 to August 31, 2020, the Ministry of Health and the Ministry of the Interior paid 8.5 billion crowns (app. EUR 336 m) for this gear,

¹ In this context, *essential* may mean a variety of things, such as: food, water, healthcare equipment, or military hardware.

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including transport and other related services. Due to shortages of medical and protection equipment experienced during the COVID-19 pandemic, some experts have suggested that states are overdependent on global supply chains for essential goods such as masks, medicine, vaccines, and ventilators.

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THE PURCHASE OF PROTECTIVE EQUIPMENT ITSELF IN THE CZECH REPUBLIC WAS ACCOMPANIED BY CHAOS DUE TO THE FACT THAT THERE WERE INDEPENDENT PURCHASING TEAMS AT THE MINISTRY OF HEALTH AND THE MINISTRY OF THE INTERIOR THAT DID NOT COOPERATE

An inspection showed that the Czech Ministry of Health underestimated the necessary preparation for a pandemic of new infectious diseases². The Ministry responded with delay to the lack of protective

² The Pandemic Plan of the Czech Republic was last updated in 2011.

equipment in medical facilities. The purchase of protective equipment itself in the Czech Republic was accompanied by chaos due to the fact that there were independent purchasing teams at the Ministry of Health and the Ministry of the Interior that did not cooperate. All this resulted in contractual conditions unfavorable for the state, significant differences in the prices of comparable protective equipment, shortcomings in their quality, and problems with transport from abroad³.

The above-described argument appeals to protectionists and countries with a more belligerent foreign policy (e.g., China, Russia, and Turkey). Such states have a proclivity to flaunt the international rules-based system we have come to rely on, and require defense mechanisms in the form of autarky, should the international community unite against them, hindering their access to globally connected supply chains.

Countries such as the U.S., Germany, and Japan, on the other hand, thrive in and encourage specialization and international trade, and rely on the rules-based system mentioned. As such, these states are more likely to go the opposite direction, towards globalization and specialization. Doing so frees up these states' workforce and resources, which can then be invested in something they excel at instead.

NEAR FUTURE

The ongoing pandemic has highlighted that we must be better prepared for similar disruptions in the future – pandemics and

³ Supreme Audit Office of the Czech Republic (2021) *Stát podcenil přípravu na pandemii. Nákupy ochranných pomůcek provázal chaos, výrazné cenové rozdíly, nedostatky v jejich kvalitě i problémy s dopravou*. Available [online]: <https://www.nku.cz/cz/pro-media/tiskove-zpravy/stat-podcenil-pripravu-na-pandemii--nakupy-ochrannych-pomucek-provazal-chaos--vyr-azne-cenove-rozdily--nedostatky-v-jejich-kvalite-i-problemy-s-dopravo-id11735/> [in Czech]

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ADOPTING A POLICY OF SPECIALIZATION AND ENSURING INTERNATIONAL ANTI-TRUST MEASURES PREVENT ONE STATE FROM MONOPOLIZING ONE GOOD, PARTICULARLY IF IT IS CONSIDERED ESSENTIAL, WOULD ALLOW FOR MORE FLEXIBLE RESPONSES TO CRISES

natural disasters will become more common in the years to come⁴. Some criticize the way trade is conducted today as a contributing factor to shortages of essential goods; however, the true issue lies in the lack of supply. Curbing imports in an effort

⁴ Hackenbroich, J. et al. (2020) *Health Sovereignty: How to Build a Resilient European Response to Pandemics*. Available [online]: https://www.jstor.org/stable/pdf/res-rep25376.pdf?ab_segments=0%252F52F5910%252F-control&refreqid=excelsior%3A1d2a0d1c-0c6698a214480b8a3d2faead

to strengthen a state's position will only cause more acute economic woes.

Generally speaking, autarky is simply not possible for a rich, industrialized state, as it is impossible to produce all the necessary goods, and their respective components, in one place. Even if this is attempted, it would be a terribly inefficient use of the workforce and resources. Instead, the focus should be on how to keep markets open and redistribute essential goods to the necessary regions or states – in short, *robustness*, which is expanded on below.

The European Centre for International Political Economy (ECIPE) states in one of its reports that we should “*produce what we need where it's possible to do it better and cheaper, so that we can get more of it when we need it*”⁵. This robustness, in combination with regional cooperation on shared issues (e.g., the shared use of water bombers on forest fires across Europe) would provide a more resilient and robust system. It would be cheaper, encourage the maintenance of positive regional relations for fear of exclusion from cooperative initiatives, and allow for states to focus their efforts and resources more efficiently⁶.

An argument against the geographical concentration of the production of certain goods is that any disruption restricted to that region has the potential to cause vastly more damage to the supply of that good⁷. As such, adopting a policy of specialization and ensuring international anti-trust measures prevent one state from monopolizing one good, particularly if it is considered

⁵ Norberg, J. (2021) *COVID-19 and the Danger of Self-Sufficiency: How Europe's Pandemic Resilience Was Helped by an Open Economy*. Available [online]: https://ecipe.org/wp-content/uploads/2021/02/ECI_21_PolicyBrief_02_2021_LY02.pdf

⁶ Ibid.

⁷ Ibid.

essential, would allow for more flexible responses to crises.

ARMS INDUSTRY

The arms industry is an area which has often seen discussions on autarky and domestic protection. In 2006, NATO Defense Ministers agreed to commit a minimum of 2% of their Gross Domestic Product (GDP) to defense spending in efforts to ensure confidence in their ability to protect the public. However, the current pandemic and its shrinking effects on GDP show how the 2-percent rule does not provide a clear or accurate picture of a country's defense spending.

When we tie spending measures to GDP, we risk falling prey to misrepresentations during economic downturns, which means a subsequent decrease in spending⁸. If other countries continue to increase their military expenditure regardless of the change of GDP due to the pandemic or other economic challenges, the percentage will automatically rise.

Regarding what is considered defense spending, recent years have exemplified that defense is a much larger encompassing concept than just the military. Military investments can support civilian life and *vice versa*. Investment into the civilian sector is also an investment into the nation's defense. For example, COVID-19 has highlighted the vulnerabilities of being dependent on foreign countries for vaccine manufacturing⁹.

Spending 2% of GDP on the military just for the sake of spending 2% of GDP is not an accurate representation of a country's defense capability. Particularly when history results in concerns that certain states have

⁸ Ibid.

⁹ Ibid.



COVID-19 HAS HIGHLIGHTED THE VULNERABILITIES OF BEING DEPENDENT ON FOREIGN COUNTRIES FOR VACCINE MANUFACTURING

a track record of corrupt spending habits, it is counterproductive to mandate 2 percent. NATO members such as Greece, Lithuania, and Bulgaria – all of whom have met the NATO minimum in the past – have instances of bribery and irregularities in their defense contracts¹⁰. The current agreement creates a false narrative that inaccurately portrays military readiness, let alone domestic stability. As the world's security threats evolve, so too should our methods of measuring our financial commitment to address them.

The Czech Republic spent only 1.19%¹¹ of GDP (in 2020) on military expenses. Minister of Finance Alena Schillerová claimed that the Czech Republic will thus not fulfil

¹⁰ *Funding NATO*. Available [online]: https://www.nato.int/cps/en/natohq/topics_67655.htm

¹¹ (2021) *Military expenditure (% of GDP) - Czech Republic*. Available [online]: <https://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS?locations=CZ>

the commitment it promised to NATO to give two percent of GDP to its defense by 2024. However, according to the Minister of Defense Lubomír Metnar, it is important that the established trajectory of expenditures is directed towards two percent¹². In 2021, the Ministry of Defense should manage a budget of 85.4 billion crowns (app. EUR 3.4 bn), which is a significant increase compared to the 2020 budget of 75.5 billion crowns (app. EUR 2.98 bn). Due to the coronavirus crisis, it agreed to return 2.9 billion crowns to the state coffers. Expenditure in 2021 should represent 1.46% of GDP. According to Minister Metnar, in 2022 the defense budget would amount to 95.2 billion, and a year later 101.7 billion crowns, which would mean 1.6% of GDP.¹³

Czech Prime Minister Andrej Babiš and President Miloš Zeman have repeatedly committed to achieving two percent of GDP in defense spending by 2024. Experts have warned in the past that, given the plans to increase the budget of the Ministry of Defense for the coming years, it is not a realistic promise to fulfil¹⁴. In 2023 and 2024, the defense budget would have to increase significantly, by about 20 billion crowns a year to meet the commitment.

Security theories have developed sufficiently enough to allow for this behavior to continue without much detriment. Security threats these days originate increasingly from non-state actors, such as nature, and even the most efficient arms industry cannot stave off such a calamity. As a result, the focus should be on the opening up and freeing of markets related to medical

¹² (2020) *Česko slib NATO nesplní, dvě procenta HDP na obranu do roku 2024 dávat nebude*. Available [online]: <https://zpravy.aktualne.cz/domaci/cesko-slib-nato-nesplni-dvou-procent-vydaju-hdp-na-obranu/~8134599afda311ea9d74ac1f6b220ee8/>

¹³ Ibid.

¹⁴ Ibid.



AS THE WORLD'S SECURITY THREATS EVOLVE, SO TOO SHOULD OUR METHODS OF MEASURING OUR FINANCIAL COMMITMENT TO ADDRESS THEM

equipment, which *can* help during environmental crises.

States which continue to adhere to a realist perspective of security tend to flirt with the idea of autarky regarding their defense industries. This is because realists believe in a traditional sense of security – one where there are clear, sovereign foes who must be challenged militarily, as well as in other manners. The anarchic nature of the international security system translates into a need to prioritize your own interests above others'.

In addition, as technology becomes increasingly integrated with weapon systems, there are myriad threats which accompany producing foreign-made weaponry (e.g., backdoors installed into weapon systems which can be used to spy or sabotage). As a result, states retain production capabilities in order to produce, or ramp up, production of weapons in times of need (e.g.,

Illustration 1: A Turkish drone featured in a parade after the Nagorno-Karabakh conflict¹⁵



Source: <https://themedialine.org/by-region/turkey-to-continue-push-into-drone-industry-after-canadian-ban-analysts-say/>

if the state has been cut off economically through sanctions)¹⁶.

Indeed, even more *peaceful* states, such as Norway, are home to smaller arms manufacturing companies¹⁷. Therefore, there is an argument to be made about at least quasi-autarky regarding the arms industry, particularly if the state harbors ambitious or aggressive foreign policy goals¹⁸.

¹⁵ Jovanovski, K. (2021) Turkey to Continue Push into Drone Industry After Canadian Ban, Analysts Say. Available [online]: <https://themedialine.org/by-region/turkey-to-continue-push-into-drone-industry-after-canadian-ban-analysts-say/>.

¹⁶ In this context, think of Turkey, its purchase of Russian S-400 missile systems, and subsequent ejection from the US F-35 fighter program.

¹⁷ The Norwegian Kongsberg Gruppen is involved in three areas: maritime, defense and aerospace, and digital.

¹⁸ Bitzinger, R. (2015) *New ways of thinking about the global arms industry: Dealing with 'limited autarky'*. Available [online]: https://www.jstor.org/stable/pdf/rep04093.pdf?ab_segments=0%252FSYC-5910-Control-Only%252Fcontrol&refreqid=excelsior%3Affffd-c76a3d161196553261b3fd727746

One of the best examples of such a tendency is Turkey – seeing NATO's incompetence in the late 20th century, Turkey began investing heavily in what has become an impressive domestic arms industry. It developed its own infantry rifle – the MKE MPT, produced by the Mechanical and Chemical Industry Corporation – and has a thriving drone industry in the form of Baykar Defense. Having the capability to produce drones, a relatively new and devastating weapon, allows Turkey to export them abroad and increase its influence and relevance internationally. The recent revival of a hot conflict between Armenia and Azerbaijan offered Turkey an ideal opportunity to sell drones to Azerbaijan, which no doubt helped them win the latest iteration of the Nagorno-Karabakh conflict.

HEALTHCARE EQUIPMENT

Outside the arms industries, however, there are still pushes for self-sufficiency in other essential goods, such as healthcare equipment. Ironically, as the biggest benefactors

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of a more globalized and interconnected world, China and the U.S. are catalysts in the push for greater autarky. It seems there is a tacit understanding that future disagreements and conflict of some kind are guaranteed, and they have begun walling off their economies in preparation for a volatile era.

The recent resurgence of populism in Europe and across the world is quite likely connected to the recent popularity in autarky – the two are closely and ideologically intertwined due to their focus *our people first* mentality. As a result, we will likely see autarky persist as an alternative to globalization in the next few years due to its rhetorical usefulness. At the same time, globalization will likely return following this populist resurgence – essentially mirroring the push for autarky, and subsequent unprecedented cooperation experienced following WWII, almost a century ago in Europe.

Brexit provides an opportunity to examine how decoupling from an international economic system can negatively affect states. It started as an inherently populist movement, claiming to fight for its citizens rights first, and ended with Brexit. This shows what can happen when populist policy decisions override common economic sense.

The United Kingdom is a highly developed economy and relies on both other EU Member States and external trade partners to obtain the goods it does not produce. This is a phenomenon which would affect most of the developed world – as developed states began shifting to service goods (i.e., the tertiary sector), manufacturing was outsourced, primarily to Asia. As a result, returning to autarky would disrupt such wide-ranging supply chains, lowering its effectiveness. Brexit also shows that decoupling from the international system in such a manner harms bilateral relations more generally – the UK has found a rather unwilling partner in the EU following its withdrawal¹⁹.

The idea of Brexit in the Czech environment is also pushed by some politicians and experts. Hana Lipovská, an economist and member of the Czech Television Council who will run in the parliament election on behalf of the Free Bloc in the Pardubice Region in the autumn of 2021, spoke in favor of the Czech Republic's unconditional departure from the European Union. “*Czexit is probably the most important of all topics*,” Lipovská said in the program “K věci” on CNN Prima News. “*It is not possible to change to greater independence without*

¹⁹ Sampson, T. (2017) *Brexit: The Economics of International Disintegration*. Available [online]: https://www.jstor.org/stable/pdf/44425386.pdf?ab_segments=0%252FSYC-5910-Control-Only%252Fcontrol&refreqid=excelsior%3A6349015c0a53fb1534147ee4a494d58d [in Czech]

Czexit, a form of some disintegration is necessary," Lipovská added²⁰. Her negative view of the European Union cannot be altered even by the money flowing into the country from the EU.

Czechs' trust in the European Union resembles an unbalanced love affair. It has its peaks and its colder periods, such as the Greek crisis (2007-2008) and the ongoing migration crisis. However, they are lovers who will not break up in the foreseeable future.

It is interesting that the Czech Republic has more confidence in the North Atlantic Alliance than the European Union. About 60% of people trust the Alliance, compared to less than 50% who trust the EU. Sociologist Daniel Prokop of the Median Agency explains this by saying that at a time when people feel that security is at stake, they are leaning towards institutions that represent power²¹. At home, for example, the police have a high level of trust, and NATO is on the international stage.

RECOMMENDATIONS

A return to the isolationist policies and economic warfare seen during the Cold War would only harm everyone involved. At the same time, Chinese-U.S. interaction is guaranteed to have vast economic and political implications on the global economy, and, as a result, the economic policies states adopt. In order to mitigate economic backsliding, there are a few potential focal points which policymakers may consider.

²⁰ Kopecky, J. (2021) *Czexit je pro mě asi nejdůležitější ze všech témat, říká Lipovská*. Available [online]: https://www.idnes.cz/zpravy/domaci/lipovska-v-poradu-k-ve-ci-czexit-volny-blok-vztah-s-bobosikovou-a-ov-cackem.A210811_133532_domaci_kop [in Czech]

²¹ Pokorný, J. (2019) *Čechům EU vesměs vyhovuje, "czexit" by neprošel. Zavedení eura ale také ne*. Available [online]: https://www.idnes.cz/ekonomika/domaci/evropska-unie-cesko-clenstvi-euro-mena-evropa-15-let-unii.A190429_195752_ekonomika_mato [in Czech]

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CHINESE-U.S.
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RESILIENCE AND ROBUSTNESS

The primary response to the recent, and future, pandemics, should be one marked by resilience and robustness. Resilience is the ability to return to normal after a disruption (e.g., a terrorist attack), while robustness is the ability to maintain operations as normal, despite a crisis (e.g., the current pandemic)²². Both phenomena are important and necessary, and states would do well to incorporate these terms into their policies. Such strategies are becoming

²² Anderies, J. et al. (2013) *Aligning Key Concepts for Global Change Policy: Robustness, Resilience, and Sustainability*. Available [online]: https://www.jstor.org/stable/pdf/26269292.pdf?ab_segments=0%252FSY-C-5910-Control-Only%252Fcontrol&refreqid=excelsior%3Aa0ead4fe37d78cdd6088024f59359ea9

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RESILIENCE
AND ROBUSTNESS
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more commonplace as threats become harder to predict, and emphasis is placed on mitigating, rather than solving, threats²³.

Resilience and robustness are also being used as justification for adopting autarky, or quasi-autarky, albeit wrongly. Making Europe less dependent on international goods and supply chains would only reduce the continent's resilience and robustness, making it weaker. It is worth noting that resilience and robustness should not be considered a panacea – it is a policy which emphasizes *living with* future crises and surviving²⁴. As the world becomes more complex and unpredictable, this mentality of *mitigating*, rather than *solving*, will become more common. The primary reason for it is the inability of actors to be prescient enough to predict future crises.

The President of the Czech Supreme Audit Office (SAO), Miloslav Kala, stated that the Czech state budget was not prepared for a significant slowdown in the economy or for the extraordinary crisis that has occurred

²³ Ibid

²⁴ Hanisch, M. (2016) *What Is Resilience?: Ambiguities of a Key Term*. Available [online]: https://www.jstor.org/stable/pdf/resrep22143.pdf?ab_segments=0%252FSY-C-5910-Control-Only%252Fcontrol&refreqid=excelsior%3A9a3168fd5ddb484d9bb7f835f120107e

in connection with the COVID-19 pandemic²⁵. The SAO recalls that gross domestic product fell by 11% in the second quarter of last year, which was the steepest decline in the history of the Czech Republic. State budget revenues fell by 44 billion year-on-year over the entire half-year, while expenditures rose by 130 billion year-on-year.

However, President Kala notes that the pandemic cannot be blamed for everything, we could have been better prepared. He points out, for example, that since the beginning of the year, the drawing of total expenditures has increased year-on-year, by tens of billions of crowns per month, and these increases mainly concerned operating expenditures²⁶. Despite this, while increasing the state budget deficit as part of its amendments, the government did not propose any savings, except for a reduction in expenditures in the chapters of the Ministries of Transport and Defense.

According to President Kala, there are also legitimate concerns that the Czech government pushed for a relaxation of the law on budgetary responsibility rules last spring. This change has made it possible to increase the structural deficit to 4% of gross domestic product this year. This is the general government deficit adjusted for the impact of the business cycle. According to the SAO President, this relaxation of the law allows room for high budget deficits in the years to come.

The SAO notes that the National Budget Council has also spoken out against this change. *"The resulting increased fiscal*

²⁵ *JiRožhlas* (2021) "Rozpočet nebyl připraven na krizi. Za všechno ale nemůže covid, hodnotí kontrolní úřad." Available [online]: https://www.irozhlas.cz/ekonomika/nejvyssi-kontrolni-urad-rozpocet-koronavirus_2101051037_pj [in Czech]

²⁶ Ibid.

space does not necessarily have to be used only for expenditure and revenue measures related to the elimination of the economic effects of the current crisis, and there is therefore a risk of denying the meaning of the rules of budgetary responsibility. The SAO evaluates the issue of the use of this increased fiscal space after the end of the COVID-19 pandemic as very risky and will monitor this issue in detail," says the SAO²⁷.

SPECIALIZATION

Utilizing specialization would allow for the optimal use of resources available. It would also encourage trade between states, increasing interdependence and developing friendlier inter-state relations. Even Europe, a self-proclaimed champion of open markets and rule of law, succumbed to the closing of borders and hoarding (and even confiscating) of essential goods.

Although Europe is an exception in that it is an inordinately close-knit community, which suffers more when disruptions and border closures prevent production of certain goods from happening, or from reaching maximum output, it is not alone in its utilization of non-native workforces. As such, isolationism, and tighter border regulations, would only serve to harm states' long-term economic goals. At present, isolationism is practiced by various states which do not coincide with the current international scene and are often described as non-free or totalitarian.

However, the question is a change in world power conditions and a shift to the multipolarity of the world order. This is reflected in the economic, strategic, political,

²⁷ iRozhlas (2021) "Rozpočet nebyl připraven na krizi. Za všechno ale nemůže covid, hodnotí kontrolní úřad." Available [online]: https://www.irozhlas.cz/ekonomika/nejvyssi-kontrolni-urad-rozpocet-koronavirus_2101051037_pj [in Czech]

and demographic levels. As a result of the economic growth of emerging economies, especially East, Southeast, and South Asia, the demands of the global South to participate in decision-making on the rules of the world economy and international trade are increasing. As a result of technological progress, the military capabilities of many states are increasing – and so does their assertiveness and ambition of defining spheres of influence with fundamental strategic implications.

The growing ambitions of countries also lead to competition for limited resources, be they minerals, energy resources

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or water²⁸. Together with the population growth of the global South, this competition increases the risks of further environmental degradation. On the other hand, there are a growing number of states that are unable to perform their basic functions and fall into violent chaos. From this situation global terrorist threats, organized crime, humanitarian crises and migration waves are sprouting. Simultaneously, because of these factors, there is a growing risk of weakening the current world order, which is based on multilateralism and international law. In order to maintain and further strengthen this order, it is necessary to strive for the widest possible circle of states to identify with its principles and participate in the creation of its rules.

In addition to states as traditional actors in international relations, the influence of non-state actors is also increasing. Some actors may be of benefit to the global order, such as NGOs or multinational corporations. They should be involved in decision-making on matters of public interest, but at the same time their sufficient regulation must be ensured. The aim of other actors, such as terrorist organizations or organized crime networks, is to abuse or deny the current world order; therefore, it is necessary to strive for their marginalization and suppression²⁹.

The current international order is also characterized by a high degree of interconnectedness, which increases the likelihood of global impacts of local events, whether with a negative or positive effect, and reduces the predictability of future

²⁸ On the other hand, it also leads to the usage of alternative resources, as they become relatively cheaper.

²⁹ Ministry of Foreign Affairs of the Czech Republic (2019) *Koncepce zahraniční politiky ČR*. Available [online]: https://www.mzv.cz/jnp/cz/zahranicni_vztahy/analyzy_a_koncepce/koncepce_zahranicni_politiky_cr.html [in Czech]

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developments. Interconnection increases the need for international cooperation and a unified, comprehensive approach. Again, the most effective way to solve complex global problems is multilateralism.

As mentioned earlier, the primary contributor to essential goods shortages during the pandemic was not trade issues, but a lack of supply³⁰. Expanding strategic stockpiles, rather than domestic manufacturing capabilities, would serve to partially remedy that issue³¹. Such a strategy is well-placed when dealing with unforeseen future disruptions.

³⁰ Yadav, P. (2020) *Trade, Manufacturing, and Critical Supply Chains: Lessons From COVID-19*. Available [online]: https://www.jstor.org/stable/pdf/resrep29668.pdf?ab_segments=0%252FSYC-5910%252Fcontrol&refreqid=excelsior%3A0a173ab1a5578634391ee8a03762ee75

³¹ Hackenbroich, J. et al. (2020) *Health Sovereignty: How to Build a Resilient European Response to Pandemics*. Available [online]: https://www.jstor.org/stable/pdf/resrep25376.pdf?ab_segments=0%252FSYC-5910%252Fcontrol&refreqid=excelsior%3A1d2a0d1c0c6698a2144-80b8a3d2faead

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This is part of what makes the optimal level of specialization difficult to achieve, as states generally look out for their own citizens first, and others' second, if at all.

The ability to specialize relies on a network of states which are willing and able to trade with, and assist, each other, and is naturally met with skepticism from less idealistic and optimistic regimes. It is a system which depends on benign cooperation and understanding and supporting a notion of the *greater good*. As a result, *regional autarky* is a possible alternative, where states aim for self-sufficiency of *essential goods* within the regional delimitations (such as the EU bloc). This combination would utilize Member States' individual talents and capabilities while retaining ownership and security over the productive capabilities. Such a compromise could appease supporters of both autarky and globalization.

EU FUNDING

The European Union as a whole would see improved healthcare provisions if it were to address the issue of brain drain. Many healthcare professionals from EU states (such as Italy or Romania) migrate to richer and more developed states (such as Germany or the UK). Poorer and less developed states, therefore, lose out somewhat due to this freedom of movement. If these states were to turn inwards, and restrict workers' movements, the EU would suffer, but the sending state would likely see at least a slight improvement in healthcare domestically. However, I would suggest instead to alleviate this issue through increased funding for healthcare development in poorer EU states, hoping to minimize the gap in expertise and opportunities between some EU states, and, therefore, minimizing the brain drain experienced in some areas. On the other hand, sometimes it is not the case of poor funding, but health care systems, which are not managed effectively³². Thus, increased funding would probably be the solution only in a few EU countries.

Foreign investment in states which have the potential to specialize in a certain good, and, therefore, diversifying from the big producers, (such as China or India in the context of the pandemic)-, would minimize the bigger players' influence over smaller, less competitive ones. Having *skin in the game*, so to speak, would also encourage the investors/investing states to promote stable conditions in the producing state, thus potentially improving the quality of life in certain states.

CONCLUSION

Looking to the future, there is a strong likelihood that the already tenuous relationship between two of the world's largest

³² Vlachynsky, M. (2019) "INESS Publishes New Index: Health for Money", [in]: *4liberty.eu*. Available [online]: <http://4liberty.eu/iness-publishes-new-index-health-for-money/>

economies – China and the United States – will deteriorate further. As a result, some states may opt for increased autarky in select industries, as insurance against a volatile geopolitical environment. Although, ideally, autarky should be abandoned entirely, the reality is that states are increasingly looking inwards and behaving selfishly.

The next decade (or longer) will likely see some backsliding towards isolationist policies, particularly with the first true resurgence of great power politics since the Cold War. Regardless, the European Union,

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the United States, and other relevant actors must push for open markets and specialization, as it has the potential to be more efficient than current alternatives.

The foreign policy of the Czech Republic connects the domestic and international environment. It enables the state and non-state entities to operate abroad in such a way to contribute to the promotion of the interests of the homeland and the international community, represented mainly by the United Nations (UN). At the same time, it dampens activities that would harm these interests.

Czech foreign policy receives positive stimuli from abroad that can contribute to the realization of Czech public interests in the domestic environment while at the national, European, or global level, it faces threats coming from abroad. The purpose of foreign policy is also to contribute to the coherence of national policies with the international obligations of the Czech Republic³³. In addition to constitutional bodies and state administration bodies, non-state actors can also contribute to the fulfillment of foreign policy goals, including self-government bodies, civil society organizations, representatives of the business sphere, academic and research institutions, churches and religious societies, and others.

The Czech Republic is a small country in the global context, and a medium-sized country in Europe. The limited human and financial resources it possesses make it necessary to set a limited number of territorial and content priorities. It also motivates active participation in the EU, NATO, UN, OSCE, and other multilateral structures,

³³ Ministry of Foreign Affairs of the Czech Republic (2019) *Koncepce zahraniční politiky ČR*. Available [online]: https://www.mzv.cz/jnp/cz/zahranicni_vztahy/analzy_a_koncepce/koncepce_zahranicni_politiky_cr.html [in Czech]

which not only expand the possibilities of the state's foreign policy, but also contribute to its security and prosperity as well as maintaining a liberal-democratic constitutional order.

The basic framework for the implementation of Czech foreign policy is the European Union. The manner of the Czech Republic's involvement in EU structures and its policies is defined mainly in the Concept of the Czech Republic's policy in the EU. The country is interested in a unified and strategically functioning EU Common Foreign and Security Policy (CFSP). The Czech Republic will actively co-create the CFSP in cooperation with like-minded EU Member States.

The universal framework for the multilateral action of the country is membership in the United Nations. The Czech Republic

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has long supported reform efforts aimed at a more effective functioning of the UN, including the reform of membership in the Security Council³⁴. An inseparable starting point for Czech foreign policy is also compliance with international law.

The Czech Republic is located in Central Europe and enjoys the best relations with its neighbors in history, which are characterized, among other things, by a high degree of interconnectedness between state and non-state actors. With its open economy, the state ranks among the forty richest countries in the world³⁵. The ratio of exports to gross domestic product is about eighty percent, with a substantial part of exports going to the European Union³⁶. Global needs and trends, and especially foreign demand for Czech goods and services, therefore, have a significant impact on the country's prosperity. According to foreign policy objectives, the Czech Republic strives for an open and predictable international economic order based on clear and fair rules.

³⁴ Ibid.

³⁵ Ventura, L. (2021) *The World's Richest and Poorest Countries 2021*. Available [online]: <https://www.gfmag.com/global-data/economic-data/worlds-richest-and-poorest-countries>

³⁶ Ministry of Foreign Affairs of the Czech Republic (2019) *Koncepce zahraniční politiky ČR*. Available [online]: https://www.mzv.cz/jnp/cz/zahranicni_vztahy/analzy_a_koncepce/koncepce_zahranicni_politiky_cr.html [in Czech]



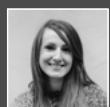
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ŠÁRKA
ŠOUP

Director of the Institute for Politics and Society, a Czech think-tank, and an elected board member of the European Liberal Forum, a think tank of the ALDE Party



Self-Sufficiency in Slovak Agriculture: A Pipe Dream



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MONIKA
BUDZÁK

In Slovakia, the agricultural policy over the last years has been focused on increasing food self-sufficiency. Already in 2014 the Ministry of Agriculture, under the leadership of Lubomír Jahnátek, aimed to increase the food self-sufficiency rate to 80%. Gabriela Matečná, who has led the ministry from 2016 until 2020, spoke about reaching 70% self-sufficiency within ten years¹. This has been a reaction to the low productivity in the agricultural sector, which could not keep up with the fast-developing industry and services sectors after the fall of communism.

During the COVID-19 crisis, self-sufficiency was hailed as a necessary criterion for ensuring food availability. Thus, the new government formed in March 2020 has not buried this objective – on the contrary, it mentions it as a priority in its Program manifesto. Why is self-sufficiency such a popular goal among Slovak politicians? Is it not just an empty political promise which, in the end, no government has been able to fulfil?

In order to find the answer to these questions, one shall first look at what it means to be self-sufficient in food production, where Slovakia stands, whether this goal is economically defensible, and if the problems in the agricultural sector can be linked to low self-sufficiency. It is also crucial to examine the political efforts to increase food self-sufficiency more closely and analyze their results. Let us explore these aspects together.

¹ *Topky.sk* (2020) "SNS chce do desiatich rokov dosiahnuť podiel slovenských potravín v obchodoch na úrovni 70%". Available [online]: <https://www.topky.sk/cl/10/1860403/SNS-chce-do-desiatich-rokov-dosi-ahnut-podiel-slovenskych-potravin-v-obchodoch-na-urovni-70-> [in Slovak]

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IN TODAY'S
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WHAT IS SELF-SUFFICIENCY?

Since Adam Smith's *Wealth of Nations*², understanding international trade and cooperation is a crucial topic for the comprehension of economics and the benefits of trade. However, the debate whether a state should rely mainly on its own resources and activity of citizens is still in place.

In today's globalized world, complete self-sufficiency is very difficult to achieve. Even a simple sandwich requires a huge amount of work and a high degree of cooperation – from growing the wheat for bread, to extracting the salt, processing the meat (or producing a vegan alternative), not to mention the fact that even meat typically comes from factory farming, which requires a number of actions before the final *product* reaches the consumer. We could go on like this by analyzing the production process of each meal. If we were even able (with a slight simplification) to manage and prepare it self-sufficiently, it would be very expensive in terms of allocated time and resources.

² Smith, A. (2002) *The Wealth of Nations*. Oxford, the United Kingdom: Bibliomania.com Ltd.

Moreover, this cooperation is not driven by any politician, but by consumers (with their demand) and entrepreneurs trying to respond with their supply. Needless to say, this article will not deal with self-sufficiency of smaller units (families, municipalities, regions), as the current political goal is to achieve self-sufficiency within the borders of Slovakia.

Food self-sufficiency at the country level is defined by the Food and Agriculture Organization (FAO) as “the extent to which a country can satisfy its food needs from its own domestic production”³. The term can therefore be expressed by the following equation:

$$\text{Domestic consumption} \leq \text{Domestic production}$$

Self-sufficiency can thus be simplistically considered as a state where entrepreneurs of a specific country produce more or the same amount of food than is consumed by its inhabitants. It depends on what is produced within the boundaries of the observed country, but also on what the average citizen consumes. In this respect, a distinction is often made between self-sufficiency in the production of different products, such as milk, fruit, vegetables, etc.

Given the climate in Slovakia, it does not make sense to strive for high self-sufficiency in citrus fruit production in the region, even though there is a demand for it. This is also one of the arguments against achieving 100% self-sufficiency. Slovak consumers would have to give up their demand for oranges, lemons, and other exotic fruits that are not grown here, or their production would be too expensive to be profitable.

³ Food and Agriculture Organization (2016) *Food Self-Sufficiency and International Trade: A False Dichotomy?*, p.2. Available [online]: <http://www.fao.org/3/i5222e/i5222e.pdf>

Defining a target value for self-sufficiency in agri-food products is, therefore, difficult. Just as there are cultural, demographic, economic, or social differences between countries, the question of the *ideal* proportion of domestic food is also unclear. Let us then look at different approaches to self-sufficiency and their (possible) implications.

HOW SELF-SUFFICIENT IS SLOVAKIA?

In order to better understand the whole issue in the Slovak context, it is useful to examine the current level of self-sufficiency

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in domestic agri-food production. Self-sufficiency is often measured by:

- the balance of foreign trade in agri-food products;
- the ratio of domestic production to average domestic food consumption⁴.

TRADE BALANCE

Critics of low food self-sufficiency regularly point to the foreign trade balance in the agri-food sector. In Slovakia, it has been negative in recent years, i.e. the value of imports of agri-food products has exceeded the value of exports. The total value of the balance in 2019 was EUR -1.812 bn⁵. However, this is a monetary figure, which means that the amount does not reveal much about the structure of imports and exports of agri-food products.

The 2019 Slovak Green Report suggests that the product groups that dominated imports by value were beef, pork, and poultry meat, soft and alcoholic beverages and vinegar, as well as dairy products, eggs and honey. For exports, the food groups with the highest value were cereals, milk, dairy products, eggs and honey, chocolate, coffee, bakery goods, rapeseed, malt, poultry meat, sausages and salami, sunflower seeds, and sugar.

Is Slovakia specific in this regard? Germany has also had a negative balance of trade in agri-food products for many years. Despite the fact that it is a larger market, with both large and small farms and an economy

⁴ Food and Agriculture Organization (2016) *Food Self-Sufficiency and International Trade: A False Dichotomy?*. Available [online]: <http://www.fao.org/3/i5222e/i5222e.pdf>

⁵ Ministry of Agriculture and Rural Development of the Slovak Republic (2020) *Zelená správa za rok 2019*. Available [online]: <https://www.mpsr.sk/zelena-sprava-2020/122---16206/> [in Slovak]

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ETC.

that is one of the most competitive in the world, self-sufficiency in terms of the balance of trade is by no means the norm⁶.

The same is true in Italy, where the soil and climatic conditions are favorable for growing many crops, and the country is renowned for its cuisine. Romania also has a negative trade balance. However, the agricultural sector there is characterized by poor productivity, which is also the result of a government policy that first restricted the creation of larger farms, then promoted collectivization, only to later seek to break them up again. It is thus a problem of political instability rather than one of low self-sufficiency⁷.

⁶ Statistisches Bundesamt – BMEL (2019) *Deutscher Agraraußenhandel*. Available [online]: <https://www.bmel-statistik.de/fileadmin/daten/AHG-0041010-0000.pdf> [in German]

⁷ MDR.de (2016) “Selbstversorger statt Global Player”. Available [online]: <https://www.mdr.de/zeitreise/stoebn/damals/rumaenien156.html> [in German]

Table 1: List of Countries According to the Balance of Trade (BOT) in Agri-food Products

Balance of Trade (BOT)	Self-Sufficiency
Countries with Negative BOT	Austria
	Croatia
	Cyprus
	Czech Republic
	Estonia
	Finland
	Germany
	Greece
	Latvia
	Luxembourg
	Malta
	Portugal
	Romania
	Slovakia
	Slovenia
Sweden	
United Kingdom	
Countries with Positive BOT	Belgium
	Bulgaria
	Denmark
	France
	Hungary
	Ireland
	Italy
	Lithuania
	Netherlands
	Poland
	Spain

Source: FAOSTAT and WTO Trade profiles (2019) Available [online]: https://www.wto.org/english/res_e/statis_e/trade_profiles_list_e.htm



GIVEN THE CLIMATE IN SLOVAKIA, IT DOES NOT MAKE SENSE TO STRIVE FOR HIGH SELF-SUFFICIENCY IN CITRUS FRUIT PRODUCTION IN THE REGION, EVEN THOUGH THERE IS A DEMAND FOR IT

However, other competitive countries such as neighboring Austria⁸ or the Czech Republic⁹ retain a similar negative balance. Out of the 28 EU countries (including the UK), only eleven had a positive balance of trade in agricultural products in 2019, according to FAO figures.

The data on trade balances in agricultural and food products vary slightly from one

⁸ Bundesministerium für Landwirtschaft, Regionen und Tourismus (2020) *Grüner Bericht 2020*, p. 7. Available [online]: https://www.bundeskanzleramt.gv.at/dam/jcr:561568c4-1e66-4bc9-a8d2-9d931907563a/29_12_ber_20_NB.pdf [in German]

⁹ Ministry of Agriculture of the Czech Republic (2020) *Výsledky agrárního zahraničního obchodu ČR v roce 2019*. Available [online]: <http://eagri.cz/public/web/mze/ministerstvo-zemedelstvi/zahranicni-vztahy/agrarni-zahranicni-obchod/vysledky-agrarniho-zahranicniho-obchodu-19.html> [in Czech]

statistic to another, but they are consistent in one of the indicators relevant for the topic of self-sufficiency – in which countries food exports outweigh food imports in value terms. The structure also confirms what has been repeatedly pointed out in the agricultural and food sector in the past: imports are dominated by higher value-added products and, conversely, exports by lower value-added products in Slovakia.

This trend suggests that the negative trade balance is not the result of low self-sufficiency, but rather a problem with the structure of agricultural and food production in Slovakia. The dominance of crop production over livestock production is also a major contributory factor. This may also be due to the low appetite of foreign investors to open new food processing plants. Investment in recent years has focused on modernizing or expanding existing enterprises rather than on building new ones.

DOMESTIC PRODUCTION VERSUS DOMESTIC CONSUMPTION

A second approach to measure self-sufficiency is to analyze the production and consumption of different types of food.

Proponents of food self-sufficiency as a policy goal argue that it is nonsense to focus on exotic fruits, but that self-sufficiency should be achieved in *typically Slovak* crops¹⁰. They often cite, for example, potatoes, which thrive in our latitudes, or apples [See: Table 2].

When comparing production and consumption, it is clear that Slovaks consume significantly less wheat, maize, and poppy seeds than is produced within Slovakia's borders.

¹⁰ *Webnoviny.sk* (2020) "Slovenskí potravinári sú rozhorčení, zo zahraničia denne príde až 823 kamiónov plných mäsa a zeleniny". Available [online]: <https://www.webnoviny.sk/nasvidiek/slovenski-agropotravinari-su-rozhorceni-zo-zahranicia-denne-pride-az-823-kamionov-plnych-potravin/> [in Slovak]

Table 2: Production of selected crops in Slovakia (1990, 2000, 2018, 2019) versus 2018 consumption

Production in Slovakia (in tons)	1990	2000	2018	2019	Consumption 2018
beans	2,433	2,259	127	74	2,103
corn	369,646	440,365	1,515,835	1,444,812	5,160
grapes	140,297	61,092	52,418	43,044	22,543
poppy	3,442	584	2,700	3,496	2,779
potatoes	778,707	418,842	169,953	182,421	271,369
soy	4,374	4,814	104,525	116,939	n/A
sunflower	56,060	117,344	201,614	128,265	n/A
wheat	2,082,682	1,254,310	1,927,926	1,939,132	465,356

Source: Statistical Office of the Slovak Republic

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THE NEGATIVE
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TURAL AND FOOD
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IN SLOVAKIA

In cereals and oilseeds, there is even several times higher production volume than consumption. However, this is not the result of the state promoting self-sufficiency in cereal production. It is partly a consequence of the fact that the demand for wheat, maize, and sunflowers is also influenced by the high demand in the non-food sector – particularly for biofuel production.

It is also worth mentioning that, in regards to livestock production, hen eggs and their origin are regularly debated. For several years now, we have observed that consumers are not only interested in their price, but increasingly in the way hens are kept. Slovakia is about 90% self-sufficient in egg production, but most of the production is from hens kept in cages¹¹. What is also

¹¹ *Webnoviny.sk* (2019) "V produkcii slepačích vajec nie sme úplne sebestační, problémy spôsobuje aj podstielkový chov". Available [online]: <https://www.webnoviny.sk/nasvidiek/v-produkcii-slepacich-vajec-nie-sme-uplne-sebestacni-problemy-sposobuje-aj-podstielkovy-chov/> [in Slovak]

Table 3: Energetic self-sufficiency in EU member states

Country	Energetic self-sufficiency coefficient (average)			Dynamics (1990–1999 = 100)	
	1990-1999	2000-2009	2004-2009	2000-2009	2004-2009
Bulgaria	94	99	101	104	107
Croatia	91	89	91	98	101
Czech Republic	109	104	106	95	97
Estonia	84	78	82	93	98
Hungary	120	117	120	97	100
Lithuania	105	107	110	102	105
Latvia	89	88	93	99	104
Poland	100	101	104	102	104
Romania	97	89	91	92	93
Slovakia	100	104	107	105	108
Slovenia	69	69	69	100	99
EU-12	101	99	101	98	101
Austria	95	96	96	100	100
Belgium and Luxembourg	112	99	98	88	87
Denmark	157	147	146	94	93
Finland	106	105	103	99	98
France	138	129	126	93	91
Germany	105	102	101	97	96
Greece	95	82	79	86	83
Ireland	140	114	108	81	77
Italy	85	76	73	89	86
Netherlands	116	114	116	98	100
Portugal	67	64	63	95	94
Spain	96	91	88	95	92
Sweden	95	91	88	96	93
United Kingdom	84	76	75	91	89
EU-15	103	96	94	93	92
EU	102	97	96	94	93

Source: Sadowski, A. and A. Baer-Nawrocka (2016) "Food Self-Sufficiency of The European Union Countries – Energetic Approach", [in]: *Journal of Agribusiness and Rural Development*. Available [online]: https://www.researchgate.net/publication/310388610_FOOD_SELF-SUFFICIENCY_OF_THE_EUROPEAN_UNION_COUNTRIES_-_ENERGETIC_APPROACH

“ THE SLOVAK AGRICULTURAL AND FOOD SECTOR IS FACING THE PROBLEM OF PRODUCING FOOD WITH LOW ADDED VALUE

happening here is that, despite the country's high self-sufficiency, consumers and some restaurants are buying foreign eggs from free-range or organic farms instead.

CALORIC APPROACH TO SELF-SUFFICIENCY

When it comes to concerns about ensuring enough food in the event of a border closure, it is not accurate to look at the foreign trade balance expressed in euros. What is important is the volume of *biomass* and the calorific volume produced in the country concerned. So, the question is: In the event of a border closure, will Slovakia be able to cover the population's calorific needs with its domestic production?

A 2016 Polish study suggests that Slovakia is one of the countries that are calorically self-sufficient. Therefore, fears of *starvation* occurring in the country are misplaced. Slovakia has even seen an increase in self-sufficiency since 1990 [See: Table 3].

To calculate the self-sufficiency coefficient, the study correlated the energy

intake from agricultural production produced in each country with the energy intake of the products consumed (from domestic and imported production). An index value above 100 means that the country is an exporter of energy value, an index less than 100 means the opposite – the country is an importer of calories. EU Member States with an index greater than 100 were mostly lowland countries with warm climate and fertile soils. Unfortunately, we are currently not aware of any other study with reliable and more up to date data to assess self-sufficiency in calorific values, although it is in our opinion a more accurate way to look at self-sufficiency.

COMMON EXPECTED POSITIVE IMPACTS PEOPLE ATTRIBUTE TO SELF-SUFFICIENCY POLICIES

As we mentioned in the introduction to this article, many people in Slovakia are calling for the promotion of self-sufficiency because of its promise of better agriculture. What are the common expected positive impacts people attribute to self-sufficiency? Let us look at their justification.

THE PURSUIT OF SELF-SUFFICIENCY IN POLITICS WILL BOOST DOMESTIC PRODUCTION

Consumers expect more quality home-grown food from self-sufficiency. But promoting self-sufficiency and promoting the production of certain crops and livestock are two different things.

Self-sufficiency depends on production and consumption. For example, if Slovaks drink less milk, Slovakia's self-sufficiency in milk may increase even without an increase in production. The Slovak agricultural and food sector is facing the problem of producing food with low added value. The aim is, therefore, to stimulate the production of crops and products with higher added value.

The Institute of Agricultural Policy at the Slovak Ministry of Agriculture and Rural Development points out that in Slovakia, the predominant crops are cereals and oilseeds, which are less labor-intensive and lower in price than fruit, vegetables or livestock farming¹². The cultivation of cereals and oilseeds is also conditioned by historical and economic development. The collectivization of cooperatives during socialism is partly responsible for the fact that the average size of fields in Slovakia is one of the largest in the European Union¹³.

Subsidy support linked to the size of agricultural land preserves the *status quo*. Cereals and oilseeds are especially advantageous to grow on large fields, and the management of them is linked to economies of scale. The second reason for growing large volumes of oilseeds (about 10% of Slovak agricultural land)¹⁴ is their use for biofuel production. This gives growers a guaranteed purchase of their produce, which makes growing oilseeds advantageous regarding the stability of their business.

This situation cannot be easily changed by self-sufficiency policies. It requires more significant reforms, such as a major rethinking of the objectives of existing subsidy policies that incentivize lower value-added production, changing the extremely

¹² Ministry of Agriculture and Rural Development of the Slovak Republic (2021) *Záverečná správa revízie výdavkov na pôdohospodárstvo a rozvoj vidieka*. Available [online]: <https://www.mpsr.sk/zaverecna-sprava-revizie-vydavkov-na-podohospodarstvo-a-rozvoj-vidieka/1263-184-1263-16615/?year=2021&> [in Slovak]

¹³ *The Slovak Spectator* (2020) "Large Fields in Slovakia Pose Risks to Environment". Available [online]: <https://spectator.sme.sk/c/22406674/large-fields-in-slovakia-pose-risks-to-environment.html>

¹⁴ *Aktuality.sk* (2020) "Repka: Spása pre naše zúbožené poľnohospodárstvo alebo žltý armagedon?". Available [online]: <https://www.aktuality.sk/clanok/794232/repka-spasa-pre-nase-zubozene-polnohospodarstvo-alebo-zlty-armagedon/> [in Slovak]

“ SUBSIDY SUPPORT LINKED TO THE SIZE OF AGRICULTURAL LAND PRESERVES THE STATUS QUO

fragmented land ownership and making it easier to do business, e.g., by encouraging sales directly from farm backyards.

Last but not least, production can also be supported by foreign investors. In order to attract capital and know-how, it is essential to build a favorable and stable business environment that does not discourage potential entrepreneurs with pointless regulations and high fines.

SELF-SUFFICIENCY IS ECOLOGICAL, DUE TO LOWER CO2 EMISSIONS

There is a wide-spread hypothesis regarding self-sufficiency: by encouraging self-sufficiency in Slovakia, CO2 emissions will decrease because Slovaks will *buy local* products that do not need to be transported from other parts of the world. This assumption is, however, wrong. There are several reasons for this:

- 1. Local production crosses political borders.** This means that for citizens living in Bratislava, food produced in the Austrian Burgenland region is closer than food imported from Zemplín region, which is located in the very east of the country. Slovak products are not automatically closer to the final consumer. This applies for other countries too – the larger the

country, the more important it is to consider this factor.

2. **Transportation accounts for an insignificant part of greenhouse emissions in agriculture.** Emissions and the environment are more influenced by pesticides used, whether there is a need to use heated greenhouses or whether the climate in a given country is naturally favorable, how much fuel is used in ploughing, etc. There are many studies on this subject.

To illustrate this, here is an example from a British study which looked at the carbon footprint of apples, lettuce and cherries. Lettuce, which is mainly produced in Great Britain, with some being imported from Spain, had the lowest carbon footprint (44-45 kg CO₂/ton). Cherries were imported from North America (7,751 km transport distance on average) by air, which meant that their carbon footprint per ton of fruit was higher than that of apples, which were imported even further from New Zealand by ship (8,767 km transport distance). While apples emitted 2.4 times more CO₂ than lettuce, cherries emitted up to 80 times more¹⁵.

Another study compared apples and concluded that apples imported from New Zealand to Britain produced less CO₂ than those grown in Britain. In the same analysis, the authors looked at onions, where there was an anomaly – the energy used to grow them was higher in Britain, but the CO₂ emissions were lower, because of the different energy mix used in New Zealand (greater use of diesel).

¹⁵ Saunders, C., Barber, A., and G. Taylor (2006) *Food Miles – Comparative Energy/Emissions Performance of New Zealand's Agriculture Industry*, p.71. Available [online]: <https://ucanr.edu/datastorefiles/608-324.pdf>



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To look at other European countries, a study completed in 2000 compared the production of cut flowers and concluded that their production in the Netherlands was more CO₂ intensive than that in Kenya, including their imports into the Netherlands. In summation, the amount of greenhouse gases emitted cannot be reduced to the transport distance alone¹⁶.

¹⁶ Vringer, K. and K. Blok (2000) *The Energy Requirement of Cut Flowers and Consumer Options to Reduce It*. Available [online]: https://www.researchgate.net/publication/263696068_The_energy_requirement_of_cut_flowers_and_consumer_options_to_reduce_it

3. **Specialization** – the magic word that allows producers to focus on mass food production. Specialization saves resources – instead of dozens of chocolate factories, there is only one. Instead of pouring concrete and tying steel in multiple cities, there is only one place, where machines are used to their full potential. Thus, specialization is in many cases also an ecological choice.

Despite the wide-spread assumption that self-sufficiency means more local food, economic theory and empirical evidence showed that this is far from true. Borders are a political construct, which often ignores the natural, social and historical connections between regions.

Despite the trend to buy local, we need to emphasize that international trade and cooperation help to provide food also for people living in cold climate or desert areas. It would be costly in terms of finance but also ecology to produce everything locally. Self-sufficiency based on national borders is, therefore, not ecological. It is thus a truly selfish and nationalistic approach.



THE AMOUNT
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FOOD SELF-SUFFICIENCY MEANS GREATER FOOD SECURITY

In the public debate, self-sufficiency is often confused with food security. In this respect, it is important to define the concept of food security, which means that “*all people at all times, have physical, social and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life*”¹⁷. This definition suggests that the origin of food does not determine its quality and availability.

In the past, international trade and cooperation, not government policies of self-sufficiency and isolation, have won the fight against famines. Nevertheless, advocates of self-sufficiency policies often argue that it is important for a country's food security, as the domestic market will lose its regular food supply if borders are closed.

There has been a long-standing argument in Slovakia that there is insufficient fruit production. However, the motivation to grow fruits also depends on storage capacity. In 2020, it was said that Slovakia produces around 50,000 tons of fruit, but not even half of this can be properly stored nationally¹⁸. Fruit production from Slovakia is, therefore, also going to warehouses abroad. Thus, it is not sufficient to produce enough in volume; it is crucial to analyze whether the infrastructure is in place to ensure that produced food reaches consumers – which means enough vehicles, refrigerators, freezers, packaging plants, etc. This is also an issue in connection with the state food reserves in Germany, but it is also a problem for

¹⁷ Food and Agriculture Organization (2011) *Statistical Pocket Book*, p. 250. Available [online]: <http://www.fao.org/3/i2493e/i2493e06.pdf>

¹⁸ *Polnoinfo.sk* (2019) “Sklady pomôžu, ale nevyriešia všetko”. Available [online]: <https://polnoinfo.sk/sklady-pomozu-ale-nevyriesia-vsetko/> [in Slovak]



IN THE PUBLIC DEBATE, SELF-SUFFICIENCY IS OFTEN CONFUSED WITH FOOD SECURITY

Slovakia – the warehouses may be full, but who will ensure that food is further processed and distributed?

Another FAO study compared the self-sufficiency rate with the number of people below the adequate nutrition intake level in several countries. Despite high self-sufficiency rates in food production, poor countries had a relatively higher hunger rate compared to rich countries¹⁹. This means that hunger does not depend on self-sufficiency, but on wealth.

Furthermore, self-sufficiency always implies a reduction in foreign competition. Let us imagine a situation where there is a massive devaluation of domestic production, e.g., due to a weather disaster. If the policy of self-sufficiency favors domestic over foreign products, the resumption of trade relations with foreign countries is not automatic. There are several well-known cases of retaliation in global trade (in food

¹⁹ Food and Agriculture Organization (2016) *Food Self-Sufficiency and International Trade: A False Dichotomy?*, p.4. Available [online]: <http://www.fao.org/3/I5222e/I52-22e.pdf>

or non-food products) where one restriction has triggered another.

The most recent example of a trade war between two superpowers is the one between the United States and China. The U.S., under the pretext of supporting local businesses, introduced new tariffs on the imports from China, which retaliated by announcing tariffs on U.S. imports. Tariffs in certain imports have increased (from 8% to 21%) and resulted in a decline in mutual trade²⁰. Although tariffs and other trade barriers have been significantly reduced in the world since World War II, trade wars are still a real threat today.

Openness and a connection to the world market is important in the event of a disaster in the home country. We do not have to think only of natural disasters such as floods or droughts. Chemical contamination can also render agricultural produce unfit for consumption for many decades. In Slovakia, for example, we are talking about sites where the soil is contaminated as a result of previous industrial activity²¹. In our quest for self-sufficiency, we keep ignoring these threats.

As analyzed in the first part of this article, the threat of starvation in the event of a border closure does not apply, as there is sufficient food production in Slovakia in terms of calories. Although there is a mismatch between agricultural production and consumer preferences. The dynamics of the development of self-sufficiency is also interesting – the so-called *new EU*

²⁰ World Trade Organization (2020) *An Economic Analysis of the US-China Trade Conflict*. Available [online]: https://www.wto.org/english/res_e/reser_e/ersd-202004_e.pdf

²¹ Soil Science and Conservation Research Institute (2010) *Soil Science and Conservation Research Institute*. Available [online]: https://www.vupop.sk/dokumenty/rozne_monitoring_pod_slovenska.pdf [in Slovak]

member states²² have rather seen an increase in calorific self-sufficiency, while the *old* member states²³ have stagnated or experienced a decrease. This development may be a consequence of the enlargement of the common market, strengthening competition, and changing consumer behavior.

To sum up, the most recent evidence-based argument which implies that self-sufficiency is not as important for food security as it seems, were the hard lockdowns during the COVID-19 pandemic in 2020. Only the short-term lack of products like flour and yeast occurred²⁴. This happened despite the fact that Slovakia is a major producer of flour and self-sufficient in this product.

HIGHER SELF-SUFFICIENCY MEANS HIGHER EMPLOYMENT

The agri-food sector is seen as a place where we can simply move the unemployed and low-skilled workers. However, agriculture today is not about giving people a shovel and sending them out to dig. As well as in other sectors, there is a shortage of skilled labor too.

There are a number of multinationals in the agri-food sector that are relying on open markets. Several such companies, which also have a significant impact on employment or tax revenues, operate in Slovakia. A well-known Slovak confectionery producer has increased its sales especially in neighboring countries but imports

²² EU 12 or *new EU member states* are countries which joined the EU in 2004 or later, e.g. Slovakia, Poland, Czechia, etc.

²³ EU 15 or *old member states* are countries which have been members of the EU before 2004, e.g. Germany, Austria, France, etc.

²⁴ *TA3.com* (2020) "Ludia pre nákazu vykupujú tovar, obchody majú vianočné tržby". Available [online]: <https://www.ta3.com/clanok/170855/ludia-pre-nakazu-vykupuju-tovar-obchody-maju-vianocne-trzby> [in Slovak]



AGRICULTURE TODAY IS NOT ABOUT GIVING PEOPLE A SHOVEL AND SENDING THEM OUT TO DIG. AS WELL AS IN OTHER SECTORS, THERE IS A SHORTAGE OF SKILLED LABOR TOO

raw materials for its production from abroad: "We import a lot of raw materials from abroad. We get flour from Hungary, powdered milk and fresh egg yolks from Poland, nuts from Portugal"²⁵.

This company alone employs more than 1,000 employees and has paid more than EUR 2 million in income taxes²⁶. By looking at the twenty largest employers in the food processing sector in Slovakia listed in the FinStat database, only three firms on this

²⁵ *Trend.sk* (2015) "Blackout a zatvorené hranice by bol kolaps štátu, myslí si Pavol Jakubec". Available [online]: <https://www.trend.sk/biznis/blackout-zatvorene-hranice-bol-kolaps-statu-mysli-pavol-jakubec> [in Slovak]

²⁶ Finstat database (2021) *I.D.C. Holding, a.s.* Available [online]: <https://www.finstat.sk/35706686> [in Slovak]

list had *private - domestic* ownership; the rest were *international private* (6) and *foreign* (11)²⁷. These investors would probably not have invested in Slovakia if the government would have pursued a policy of self-sufficiency. They built the plant, created new jobs, and brought in capital.

While ownership does not indicate whether a firm uses more Slovak than foreign resources, these are generally also export-oriented companies. Sales and jobs are thus also dependent on exports, not just on domestic demand. The list of the largest companies in the food sector by sales in 2015 shows that there are only a few companies that produce solely for the Slovak market²⁸.

In addition, several companies focus on the production of intermediate products such as cocoa paste or alcohol²⁹. Their specialization allows for high-volume production, which lowers the unit cost of production. Further processing steps can thus take place in different locations, often in different countries, where other intermediate or final products are produced for sale. Thanks to open borders, a larger market and higher production volumes, the unit cost of production falls, and, as a result, domestic consumers can also enjoy cheaper products.

²⁷ Finstatdatabase(2021)*Firmys finančnými údajmi - databáza hospodárskych výsledkov slovenských firiem*. Available [online]: <https://finstat.sk/databaza-financnych-udajov> [in Slovak]

²⁸ Trend.sk (2015) "Najväčšie firmy Slovenska - potravinársky priemysel". Available [online]: <https://www.trend.sk/trend-archiv/najvacsie-firmy-slovenska-potravinarsky-priemysel> [in Slovak]

²⁹ TERAZ.sk (2012) "O slovenskú vodku majú záujem v Číne, už tam vypravili prvý kontajner". Available [online]: <https://www.teraz.sk/najnovsie/o-slovensku-vodku-maju-zaujem-v-cin/31126-clanok.html> [in Slovak]

NEGATIVE ASPECTS OF THE ENDEAVOR FOR SELF-SUFFICIENCY IN SLOVAKIA

Slovakia is part of the European Common Market, within which the European Commission oversees the free movement of goods and services. This is governed by the principle of non-discrimination of products from individual member states. Several attempts to restrict products from abroad have been stopped as they distort the competitive environment.

In Bulgaria, for example, they recently passed a law requiring chains to sell 90%

” THANKS TO OPEN BORDERS, A LARGER MARKET AND HIGHER PRODUCTION VOLUMES, THE UNIT COST OF PRODUCTION FALLS, AND, AS A RESULT, DOMESTIC CONSUMERS CAN ALSO ENJOY CHEAPER PRODUCTS

” THE SLOVAK MARKET IS ONE OF THE SMALLER ONES AND THE POSSIBILITY TO EXPORT ABROAD LEADS TO ECONOMIES OF SCALE, WHICH ALLOWS DOMESTIC CONSUMERS TO AFFORD CHEAPER SLOVAK PRODUCTS

of dairy products from domestic producers and to reserve a special area in the store for domestic products. The European Commission has called on the country to repeal the law, as it violated the principle of the free movement of goods³⁰.

Similarly, in 2020, the Commission also warned Romania, which had implement-

³⁰ SeeNews.com (2020) "EU Commission Urges Bulgaria to Scrap Law Obliging Retailers to Favor Domestic Foods". Available [online]: <https://seenews.com/news/eu-commission-urges-bulgaria-to-scrap-law-oblig-retailers-to-favour-domestic-foods-698875>

ed a similar law. Slovakia was also in the spotlight, when the European Commission stated that a law highlighting/favoring the marketing of Slovak products violated the rights of retailers to design and choose their own products³¹. At the beginning of 2021, a similar issue was addressed in neighboring Czech Republic, when a draft law on the minimum share of home-produced food on the Czech market was on the table³². These laws ignore the fact that domestic producers often also offer their products on foreign markets, and if each country applied similar principles, the common market and its benefits would not work in practice. The largest companies in the food sector in Slovakia are often also significant exporters (the share of exports in sales is more than 50% for some of them)³³.

The Slovak market is one of the smaller ones and the possibility to export abroad leads to economies of scale, which allows domestic consumers to afford cheaper Slovak products. Not to mention food companies, which are also important employers. Stable jobs cannot be created by legislating limitations on foreign competitors. On the contrary, such policies will contribute to the introduction of similar restrictive measures in the target markets for Slovak production. What if politicians in countries from which we refuse to buy apples suddenly return our cars?

³¹ European Commission (2020) *July Infringements Package: Key Decisions*. Available [online]: https://ec.europa.eu/commission/presscorner/detail/en/INF_20_1212

³² Czech Parliament (2020) *Amendment Proposal to Law no. 110/1997*. Available [online]: https://kaderavek.cz/_files/200000198-006ad006b0/462293477-Balastikova.pdf [in Czech]

³³ Trend.sk(2015) "Najväčšie podniky potravinárskeho priemyslu". Available [online]: <https://www.trend.sk/trend-archiv/najvacsie-podniky-potravinarskeho-priemyslu> [in Slovak]

“ PAST CRISES SHOW THAT IF ONE COUNTRY INTRODUCES BARRIERS, OTHER COUNTRIES FOLLOW ITS EXAMPLE

The World Food Security Report, also published annually by the FAO, points out that protectionist trade measures have often been embedded in strategies to increase food self-sufficiency. In low-income countries, this has resulted in increased domestic production of energy-dense foods (such as rice and maize), but at the expense of vitamin- and nutrient-rich crops (mainly fruits and vegetables)³⁴. This tendency confirms the hypothesis above that self-sufficiency policies will not ensure quality, safe and affordable food, and may lead to the opposite – jeopardizing food security. The report also highlights the issue of non-tariff barriers – such as various sanitary and phytosanitary regulations in trade, – which increase costs for producers and the price of food for consumers.

In the context of the COVID-19 crisis and concerns about food supplies, the FAO has

³⁴ Food and Agriculture Organization (2020) *Food Security And Nutrition Around The World In 2020*, Available [online]: http://www.fao.org/3/ca9692en/online/ca9692en.html#chapter-executive_summary.

issued an opinion stating that states should do everything possible to keep markets open and to eliminate barriers to international trade. Past crises show that if one country introduces barriers, other countries follow its example³⁵.

CONCLUSION: SLOVAK AGRICULTURE AND FOOD INDUSTRY CAN THRIVE WITHOUT SELF-SUFFICIENCY

The good news for the Slovak agri-food sector is that it does not need more self-sufficiency. Its definition is too vague to base policy efforts on it.

However, examples from other countries show that a reliable supply of healthy food from productive and competitive domestic farms is the result of investment and innovation. Skilled workforce, free flow of know-how and investment, and, last but not least, specialization are the keys to making Slovak businesses and products competitive, while meeting the quality demands of domestic and foreign consumers.

Modern agriculture resembles a car factory with sophisticated machines, engineers, and warehouses, rather than an outdated cooperative, which was the last hope for a low-skilled workforce. There are already positive examples in the sector today that are succeeding because of their entrepreneurial determination. Thanks to openness and international cooperation, a number of major employers were able to develop their successful businesses in the food sector.

Specialization has contributed to the export success of instant soup producers in the Upper Nitra region, confectioners in

³⁵ Food and Agriculture Organization (2020) *COVID-19 and the Risk to Food Supply Chains: How to Respond?*. Available [online]: <http://www.fao.org/3/ca8388en/CA8388-EN.pdf>.

the capital, and juice producers in southern Slovakia. In agriculture, the import of technology has led to exceptional projects in fruit and vegetable growing. Innovation, capital investment, and land were enough to build a blueberry farm in the village of Nová Dedina, even without the help of state subsidies³⁶. Meanwhile, the Danube Lowland is swarming with tomato growers who, thanks to modern technology and good marketing, achieved a stable position and financial results³⁷. These successful farms show that entrepreneurial determination is more important than subsidy schemes and political strategies.

Although it sounds like a *cliché*, the way to encourage entrepreneurs is to simplify the conditions for doing business. For example, poppy growers face excessive bureaucracy unrelated to the prevention of illegal activities (e.g., health declarations)³⁸. Significant investment in the food sector in recent years has come mainly from existing companies expanding their production. New food investments are less frequent, which may be related to the changing business environment and the propensity for protectionism.

Farmers and food producers should be concerned first and foremost with their business, not with regulation. In this context, changes in the subsidy system will also play a crucial role, as subsidy schemes in the past have been characterized by their unpredictability and a great amount of reporting. New ideas need a ground

³⁶ *Pravda.sk* (2017) “Čučoriedková plantáž bez dotácií. Za vlastné”. Available [online]: <https://ekonomika.pravda.sk/ludia/clanok/438215-cucoriedkova-plantaz-bez-dotacii-za-vlastne/> [in Slovak]

³⁷ *Trend.sk* (2015) Kto boli finalisti Podnikateľa roka 2014. Available [online]: <https://www.trend.sk/financie/kto-boli-finalisti-podnikateľa-roka-2014> [in Slovak]

³⁸ SLOV-LEX (2021) Law No. 1998/139/ZZ. § 5 (5). Available [online]: https://www.slov-lex.sk/static/pdf/1998/139/ZZ_1998_139_20200101.pdf [in Slovak]

for implementation – investment in land consolidation to solve the extremely fragmented land ownership will create a more transparent environment for farmers, entrepreneurs, as well as the general public. These particular reforms should not be reduced to the notion of self-sufficiency.

We all want more local food that is healthy and affordable. We want to see more competitive companies whose productivity and reputation guarantee quality. For this dream state, the agri-food sector needs more than self-sufficiency. It needs reform commitments that create space for cooperation, not isolation.



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MONIKA
BUDZÁK

INESS's Program Manager and Analyst. Her research focuses on economic issues in agriculture. Since 2014, she is also responsible for various educational programs at INESS, e.g. the Economics Olympiad, with more than 8,500 participants in 2020. She graduated from the University of Economics in Bratislava and completed two semesters abroad - at the Vienna University of Economics and Business and at Technische Universität Dresden

Polish Agricultural Autarky: Plow the Subsidies In!



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ALEKSY
PRZYBYLSKI

Throughout our history, autarky has been an attractive idea for many, and while today's public debate rarely includes a call to shut down the country and build a self-sufficient utopia, we may occasionally come across attempts to set up parts of the economy independent of external partners. When we ask the average person in the Western world whether their country should have a self-sustaining economy in terms of automobile production, such an individual will probably think we are silly. However, if we ask them about self-sufficiency in food production, there is a good chance that they will support the idea. In fact, it is easy to understand – food is a commodity we need to live, and in such a situation reason may easily be overcome by fear.

Moreover, the idea of food autarky is practiced by many countries, including those considered most economically developed or free-market oriented. One example is the United States, where the government is trying to protect its agriculture sector with subsidies and tariffs¹. Perhaps the politicians in power are motivated by something other than an attempt to build an agricultural autarky, such as fear of losing the votes of agricultural voters. Whatever their motivation is, one can conclude that they are, *de facto*, trying to build food self-sufficiency in the countries they lead.

Usually their instruments are tariffs, subsidies, or various types of regulations aimed at favoring domestic agriculture over other economic sectors or twinned with foreign economies. They do nothing about economic theory critical of protectionism, supported by historical evidence of the ineffectiveness of such approaches.

¹ <https://www.usda.gov/farbill>

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WHEN THE TIME
CAME FOR SYSTEMIC
AND ECONOMIC
CHANGES
IN POLAND,
AGRICULTURE HAD
TO CHANGE

For example, British tariffs and trade restrictions from the first half of the 19th century, known as Corn Laws, were designed to keep the price of grain high in Britain. This had the effect of slowing the growth of other sectors of the British economy by reducing the disposable income of the population due to rising food prices².

Another example where state interference in agriculture led to bad consequences is communist Poland. The economy of the communist bloc was geared for war with the West, so heavy industry was relied upon as well as agriculture³. However, communism is characterized by the fact that it has huge problems with the efficient allocation of resources, because there is no natural process of price formation – in communist Poland, it was not guided by economic rationality, but by political needs and forecasts of public officials. Therefore, when the time came for systemic and

² <https://www.economist.com/by-invitation/2021/06/25/donald-boudreaux-and-douglas-irwin-on-free-trade-tips-from-1846>

³ Poczta, W. (2020) "Przemiany w rolnictwie polskim w okresie transformacji ustrojowej i akcesji Polski do UE", [in]: *Więś i Rolnictwo*, Vol. 2(187). [in Polish]

economic changes in Poland, agriculture had to change.

THE COMMUNIST LEGACY

Capitalist Poland inherited the mistakes of its communist predecessor. In the late 1980s and early 1990s, the productivity of an average farmer in Poland was very low – they were able to feed about nine people with their labor, while their counterpart in developed countries could support about eighty people.

Moreover, Polish agriculture was overfilled with workers – this sector in rich countries provides jobs for about 2-8% of the economically active population. If we add occupations related to food processing etc., we get about 10-20% of all the employed. In Poland, however, it was 35%, i.e., about twice as much as in developed economies.

A large part of this number was employed directly in agriculture. In other words,

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IN 2020,
AROUND 9%
OF THE POLISH
EMPLOYED
ARE WORKING
IN FARMING,
WHEN THE EU
AVERAGE
IS ABOUT 4.5%

a huge part of the workforce was focused on the production of downstream goods. This shows the underdevelopment of this sector, which was a result of the socialist economy. It was not until the transition to a market economy that the need for such high employment in this inefficient sector was verified by market-based competition⁴.

In 1991, about 26% of the workforce was employed in agriculture. Thanks to the development of the industry and the service sector, parts of the economy that create much more added value, those employed in agriculture changed their place of employment. This transition to more efficient industries caused them to automatically increase their productivity, and contribute to the enrichment of themselves and society as a whole. Despite the growth of industry and services, in 2020, around 9% of the Polish employed are working in farming, when the EU average is about 4.5%. If we look at the post-communist EU member states, only Romania could claim a higher share, with about 21% in 2020⁵.

The result is not only a slower development of the Polish economy, but also a greater burden on more productive workers. According to the Civil Development Forum, labor productivity per person per year in agriculture is less than PLN 25,000 (app. EUR 5,425), when in the small and medium enterprise (SME) sector, it will be about PLN 80,000 (app. EUR 17,370), while in financial enterprises it is about PLN 200,000 (app. EUR 43,430). If we look at the generated added value per employee in agriculture

⁴ Gorzelak, E. (2010) *Polskie rolnictwo w XX wieku. Produkcja i ludność*. [in Polish]

⁵ FOR (2021) *Polska: Zastój czy rozwój? Praca, praworządność, inwestycje, innowacje*. Available [online]: <https://for.org.pl/pl/publikacje/raporty-for/polska-zastoj-czy-rozwoj-praca-praworzadnosc-inwestycje-innowacje> [in Polish]

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IF A POLISH WORKER
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OTHER THINGS,
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OF THE INEFFICIENT
AGRO-INDUSTRY

expressed in EUR, Poland occupied 25th place out of 27 members in the European Union in 2019⁶.

It is worth mentioning that in 2020, the EU average salary for agriculture, forestry, and fisheries was EUR 20,100 per worker, or about PLN 88,000⁷. If a Polish worker wonders why they cannot have nice things the answer is: among other things, it is because of the inefficient agro-industry.

One of the biggest weaknesses of Polish agribusiness has been the fragmentation of agricultural land into a multitude of very small and inefficient farms⁸. Low

productivity of agriculture results partly from its structure in terms of holding size, but also from the general level of development of the economy⁹. There is quite a strong correlation between the average value produced by a farm and the real productivity of labor expressed in euros per hour worked. In turn, the average created value depends, among others, on the size of the area.

We can also show a high correlation between GDP per capita PPS and real productivity per hour of labor. One source of productivity growth is increased fixed capital expenditures. Meanwhile, it often does not make economic sense to invest in specialized farm machinery when cultivating a small area, because it means that it will take a relatively long time for the investment to pay off.

However, data on expenditures on fixed assets in agriculture cannot be treated as a completely sufficient and 100% reliable basis for assessing the condition of the sector. It should be borne in mind that if there are subsidies for the purchase of machinery, farms may buy more of it than they would obtain under market conditions. Therefore, one should pay special attention to this, because, e.g., a higher share of depreciation in costs may result from higher wear and tear of machinery in the case of larger farms¹⁰, even if they have fewer machines. But it is also possible that there is a surplus of machine X and a shortage of machine Y on the farm,

⁹ Nowak, A. (2020) "Produktywność pracy w gospodarstwach rolnych w Polsce w zależności od ich wielkości ekonomicznej", [in]: *Annales Universitatis Mariae Curie-Skłodowska*, Vol. 54(3). [in Polish]

¹⁰ *Farmer.pl* (2015) "Sytuacja rolników po zniesieniu kwot mlecznych". Available [online]: <https://www.farmer.pl/produkcja-zwierzeca/bydlo-i-mleko/sytuacja-rolnikow-po-zniesieniu-kwot-mlecznych.57879.html> [in Polish]

⁶ Ibid.

⁷ Eurostat (2020) *National Accounts and GDP*. Available [online]: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=National_accounts_and_GDP

⁸ Gorzelak, E. (2010) *Polskie rolnictwo w XX wieku. Produkcja i ludność*. [in Polish]



IN THE CASE OF POLAND, DEPRECIATION IS AT LEAST SEVERAL TIMES LOWER THAN IN COUNTRIES WITH HIGH AGRICULTURAL PRODUCTIVITY

precisely because of subsidies for their purchase or sale¹¹.

With a relatively small farm field, a farmer will rather choose to do more manual work and ask their family members for help. Confirmation of this thesis may be found in the quite strong correlation between the share of non-family workers and the amount of productivity among farms generating an annual value of at least EUR 15,000 (app. PLN 69,080). There is also a strong correlation between the average size of a holding, or the value created by agriculture as a whole, and the share of regular full-time workers in the total number of workers.

When we look at EU data and compare the depreciation of fixed assets, we can see that in the case of Poland, depreciation is at least several times lower than in countries

¹¹ For an in-depth look at agricultural productivity in the EU, see, for example: Sadowski, A., Poczta, W., Beba, P., and E. Szuba-Barańska (2016) "Zróżnicowanie produktywności modeli gospodarstw rolnych w UE", [in:] *Wieś i Rolnictwo*, Vol. 1(170). [in Polish]

with high agricultural productivity, if we compare the ratio of depreciation to value created¹². At the same time, according to a 2014 analysis, for every 100 ha there are 13 tractors in Poland versus 5 tractors in Denmark. This suggests that Polish farmers are buying more machinery than they actually need¹³. Among other reasons, this is because of the high number of small farms^{14,15}.

Other solutions for the farmer are to try to enlarge the farm or to sell and change the workplace, e.g., by moving to industry where productivity is higher. However, in regions with a strong attachment to tradition, there may be a mental problem of being unwilling to sell inherited land as a kind of family heritage. A consequence of the small acreage is a limited need to hire outside workers to help on the land, which is, again, confirmed by the Eurostat¹⁶.

¹² *Kulturozofia.pl* (2021) "Manipulacje TVPoUE". Available [online]: <https://kulturozofia.pl/manipulacje-tvp-o-ue/> [in Polish]

¹³ FOR (2015) "Następne 25 lat. Jakie reformy musimy przeprowadzić, by dogonić Zachód?". Available [online]: https://for.org.pl/pliki/artykuly/1972_1479-raport-for-nastepne-25-lat-jakie-reformy-musimy-przeprowadzic-by-dogonic-zachod.pdf [in Polish]

¹⁴ For a more detailed analysis of the topic of Polish agricultural productivity, see: Krzywulski, P. (2016) "Nie rzucim ziemi! – ekonomiczne skutki ustawy o obrocie ziemią rolną", [in:] *mises.pl*. Available [online]: <https://mises.pl/blog/2016/08/17/krzywulski-nie-rzucim-ziemi/> [in Polish]

¹⁵ The European Union by small farm means a farm holding below 10 hectares. See: https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/income-support/additional-optional-schemes/small-farmers-scheme_en

¹⁶ The mentioned correlations were calculated based on data from Eurostat, the EU statistical office. Data from 2013 and 2007 were used due to the lack of such data from the same year, so it should be kept in mind that while comparing such information from one year the correlations could come out stronger or weaker. However, the existence of a cause-and-effect relationship between the factors examined is indicated by economic theory. Moreover, it should be remembered that this is not a zero-sum relationship, and there are other aspects that may influence these results, such as available land of sufficient quality or the degree of flexibility of labor laws.

WHAT IS POLAND DOING WRONG?

It is worth considering how politicians cause harm to agriculture. In the Polish law, there are many ways in which farmers can be supported at the expense of the rest of society. The most important one seems to be KRUS, the state social insurance system intended only for agriculturists. The difference between the general social insurance system and KRUS can amount to approximately PLN 1,318 (app. EUR 292). The difference per year is 15816 PLN (app. 3508 EUR)¹⁷. The amount for a farmer running both an agricultural holding and a nonagricultural activity is not much higher.

This disparity means that there is a solid financial encouragement to stay on the land, even if the gross income remains relatively low. Therefore, it is important that politicians strive to limit the existence of KRUS as much as possible, including its abolition. Moreover, as a farmer, one can forget about the income tax, because they will be mostly affected by the special agricultural tax¹⁸. It sometimes happens that KRUS is used for tax fraud in order to understate tax liabilities. As a proof, let us use the 2013 Supreme Audit Office report on a survey of the entitlements of people registered as farmers, according to which, about 30% of those surveyed should not be enrolled in KRUS¹⁹.

¹⁷ To be precise, in reality this difference might be smaller. A Polish farmer for each full hectare of agricultural land pays 1 PLN (EUR 0.22) as a health insurance fee. So a farmer with 100 ha in the general insurance system will pay PLN 1,45749 (EUR 323) and in KRUS PLN 239 (EUR 53) per month, making a difference of PLN 1,218 (EUR 270). See: *Poradnikprzedsiębiorcy.pl* (2021) "Rolnik i działalność gospodarcza – ZUS czy KRUS?". Available [online]: <https://poradnikprzedsiębiorcy.pl/-rolnik-i-dzialalnosc-gospodarcza-zus-czy-krus> [in Polish]

¹⁸ *Gov.pl* (2018) Informacja o podatkach w rolnictwie". Available [online]: <https://www.gov.pl/web/rolnictwo/informacja-o-podatkach-w-rolnictwie> [in Polish]

¹⁹ *NIK.gov.pl* (2013) "NIK o funkcjonowaniu KRUS". Available [online]: <https://www.nik.gov.pl/aktualnosci/nik-o-funkcjonowaniu-krus.html> [in Polish]



IN THE POLISH LAW, THERE ARE MANY WAYS IN WHICH FARMERS CAN BE SUPPORTED AT THE EXPENSE OF THE REST OF SOCIETY

There are also companies in the farming sector that are controlled by the state. The state agency, the National Agricultural Support Centre, controls thirty-eight companies of "strategic importance" and owns shares in another twelve companies, including, among others, an agritourism farm²⁰. This means that private enterprises from the agricultural sector – generally not very productive in comparison with other sectors anyway – have to fight against entities supported by taxpayers, i.e. with enormous political and financial capabilities. *Nota bene*, it is a good place for politicians to employ their family members or friends, which is done on a huge scale in Poland²¹.

²⁰ Krajowy Ośrodek Wsparcia Rolnictwa (2017) *Spółki*. Available [online]: <https://www.kowr.gov.pl/spolki> [in Polish]

²¹ See: *Radiozet.pl* (2021) "Tłuste koty' PiS ze spółek Skarbu Państwa. PSL pokazało listę 357 nazwisk". Available [online]: <https://wiadomosci.radiozet.pl/Polska/Polityka/Nepotyzm-i-tluste-koty-PiS-ze-spolek-Skarbu-Panstwa.-Jest-lista-357-nazwisk> [in Polish]; *Poradnikprzedsiębiorcy.pl* (2021) "Rolnik i działalność gospodarcza – ZUS czy KRUS?". Available: [online] <https://poradnikprzedsiębiorcy.pl/-rolnik-i-dzialalnosc-gospodarcza-zus-czy-krus> [in Polish]

Competition is also weakened by legal restrictions on agricultural land trading, which in Poland was introduced by a set of laws in 2015 and 2016. This has made it difficult for new entrants, both individual and corporate, to enter the market and for existing farms to expand²². If we analyze the EU data again, we can see quite a strong correlation between productivity and the number of holdings with a created value between EUR 25,000 and 250,000 (app. EUR 5,430 and 54,280). There is also a very strong correlation between the amount of value created by the sector and the number of farms creating more than EUR 50,000 (app. EUR 10,860) or more than 10 ha²³. This means that politicians have thus limited the productivity growth of Polish farmers²⁴.

Moreover, we can point to many financial support programs for farming, mainly from the EU. An example of such a subsidy from 2021 may be support for the development of the production of specific animals, where you can get up to PLN 900,000 (app. EUR 200,000)²⁵. In total, under the Common Agricultural Policy, the European Union has provided Poland with EUR 61.2 bn until the end of October 2020²⁶. Arguably, some of

²² FOR (2016) *Politycy chcą zahamować rozwój polskiego rolnictwa*. Available [online]: <https://for.org.pl/pl/a/3814,komunikat-forpolitycy-chca-zahamowac-rozwoj-polskiego-rolnictwa> [in Polish]

²³ Calculations based on the Eurostat data. See: footnote 16.

²⁴ Krzywulski, P. (2016) "Nie rzucim ziemi! – ekonomiczne skutki ustawy o obrocie ziemią rolną", [in]: *mises.pl*. Available [online]: <https://mises.pl/blog/2016/08/17/krzywulski-nie-rzucim-ziemi/> [in Polish]

²⁵ *Tygodnik Rolniczy* (2021) "Modernizacja gospodarstw rolnych 2021 – do 900 tys. złotych dotacji dla rolników". Available [online]: <https://www.tygodnik-rolniczy.pl/articles/pieniazde-i-prawo/modernizacja-gospodarstw-rolnych-2021-do-900-tys-zlotych-dotacji-dla-rolnikow/> [in Polish]

²⁶ *TVN24.pl* (2020) „Fundusze unijne dla Polski. Jak zostały wykorzystane i kto zyskał najwięcej?”. Available [online]: <https://tvn24.pl/biznes/pieniazde/fundusze-unijne-dla-polski-ile-pieniedzy-dostalismy-od-unii-bilans-do-2020-roku-4773138> [in Polish]

that money has gone to businesses that will spend it in an economically efficient way. But it is equally certain that a piece of this pool will also go to farms, where there will be wasted resources. This means that the EU with national governments will actually support companies that should be shut down because of their low productivity.

When talking about poor farm productivity, it is not just about the misallocation of resources, over-employment or too many machines. Small productivity also means production of goods on which there is a poor yield under market conditions, and so it pays off only thanks to state support. It is not without reason that in 2007 the Swedish Minister of Agriculture, Eskil Erlandsson, proposed eliminating subsidies to the agricultural sector, except those re-

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lated to environmental protection²⁷.

Similar to subsidies, protection duties applied by the European Union²⁸ has limited access of European consumers to cheap food from outside the EU. This approach administratively inflates prices on the intra-EU market, which also means increased profits for farms – an indirect support for farmers²⁹. According to a 2008 OECD analysis, a family of four in the EU lost almost USD 1,000 (app. EUR 850) in higher prices and taxes due to tariffs³⁰.

At the same time, the custom duties reduced the market incentive to direct efforts towards the production of higher-order goods. As a result, the resources of European farms are wasted on providing goods that could be produced by producers in less developed countries. In this way, the EU, in the name of preserving the privileges of a part of society, deprives the rest of the cheap food and hinders the enrichment of, among others, African farmers.

The former British Ambassador to Poland, Charles Crawford, once commented on European agricultural subsidies:

"[it is a program] that inefficiently transfers taxpayers' money to feed the rich French peasants and drives up food

²⁷ *The Local* (2007) "Sweden: 'Abolish EU farm subsidies'". Available [online]: <https://www.thelocal.se/20070529/7443/>

²⁸ <http://capreform.eu/the-protective-effect-of-eu-agricultural-tariffs/>

²⁹ This happened in the United States after the Civil War in the 19th century, among other places: Tyszkiewicz, J. J. (2016) "Nasz wróg import", [in] *mises.pl*. Available [online]: <https://mises.pl/blog/2016/03/04/tyszkiewicz-nasz-wrog-import/> [in Polish]

³⁰ See: OECD (2006) *The Doha Development Round of trade negotiations: understanding the issues*. Available [online]: https://web.archive.org/web/20080612183045/http://www.oecd.org/document/45/0%2C2340%2Cfr-2649_201185_35738477_1_1_1_1%2C00.html

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THE RESOURCES
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*prices in Europe, while contributing to the pauperization of Africa, a problem we are trying to solve through inefficient, yet expensive, aid programs (...).*³¹

On the other hand, it seems that the European Union can be praised for its *Everything but Arms* initiative³², which consists in implementing preferential access to the EU market for producers from poor countries. However, it is worth mentioning that the EU was able to subsidize exports so that farmers from developing countries could not compete with EU crops³³.

³¹ Translation based on: Bitner, M. (2010) "Kwestia rolności", [in]: *mises.pl*. Available [online]: <https://mises.pl/blog/2010/07/01/kwestia-rolnosc/> [in Polish]

³² See: Regulation (EU) No 978/2012 of the European Parliament and of the Council of October 25, 2012, applying a scheme of generalized tariff preferences and repealing Council Regulation (EC) No 732/2008. Available [online]: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02012R0978-20200812>

³³ <https://innovationjournalismgrants.org/projects/the-dark-side-of-italian-tomatoes>

“AS AN EXAMPLE OF THE EU'S WASTEFUL USE OF RESOURCES IN AGRICULTURE, IN 2009 THE EU BOUGHT 30,000 TONS OF BUTTER THAT DID NOT SELL

It is also worth looking at another mechanism implemented by the European Union, i.e. intervention through administratively established prices, intervention purchases or production limits, such as the so-called milk quotas³⁴. This mechanism is harmful because it disturbs market signals flowing from consumers to producers, thus increasing the risk of making a wrong investment decision, which happened in Poland in 2013 and 2014³⁵.

³⁴ See: *Farmer.pl* (2015) "Sytuacja rolników po zniesieniu kwot mlecznych". Available [online]: <https://www.farmer.pl/produkcja-zwierzeca/bydlo-i-mleko/sytuacja-rolnikow-po-zniesieniu-kwot-mlecznych,57879.html> [in Polish]; WRP.pl (2015) "Zniesienie kwot mlecznych sprzyja rozwojowi produkcji mleka Polsce". Available [online]: <https://www.wrp.pl/zniesienie-kwot-mlecznych-sprzyja-rozwojowi-produkcji-mleka-polsce/> [in Polish]

³⁵ *Farmer.pl* (2015) "Sytuacja rolników po zniesieniu kwot mlecznych". Available [online]: <https://www.farmer.pl/produkcja-zwierzeca/bydlo-i-mleko/sytuacja-rolnikow-po-zniesieniu-kwot-mlecznych,57879.html> [in Polish]

The result of such a policy may ultimately be a crisis in a given industry due to signals of high profitability in a given market through the actions of public administration. Moreover, in this way, consumers' access to cheap food is reduced, which makes them financially unproductive farms instead of directing their money to savings or purchase of other types of goods.

At the same time, such an action can lead to shortages or surpluses in the market, and reduce market flexibility during crises. As an example of the EU's wasteful use of resources in agriculture, in 2009 the EU bought 30,000 tons of butter that did not sell³⁶. A similar situation happened with wine in 2005-2007³⁷. One can also mention the sugar crisis in Poland in 2011, when the price of sugar jumped by about 40% due to, among others, too tight of EU limits^{38 39}. Also in the United States, after World War I, there were attempts to administratively control the prices of agricultural products and, in the end, this only worsened the situation of farmers⁴⁰.

³⁶ Castle, S. (2009) "Europe's Butter Mountain Is Back", [in]: *nytimes.com*. Available [online]: <https://www.nytimes.com/2009/01/22/world/europe/22iht-un-ion.4.19606951.html>

³⁷ Wyatt, C. (2006) "Draining France's 'wine lake'", [in]: *news.bbc.co.uk*. Available [online]: <http://news.bbc.co.uk/2/hi/europe/5253006.stm>

³⁸ *Bankier.pl* (2011) "Unia na skraju cukrowego kryzysu". Available [online]: <https://www.bankier.pl/wiadomosc/Unia-na-skraju-cukrowego-kryzysu-2291809.html> [in Polish]

³⁹ It is worth adding that the European Union has ended the so-called milk or sugar quotas in 2015 and 2017: <https://www.euractiv.com/section/agriculture-food/news/eu-puts-end-to-30-years-of-milk-quotas/>; https://ec.europa.eu/commission/presscorner/detail/en/IP_17_3487

⁴⁰ Rapka, P. (2019) "Dlaczego sektor rolny ucierpiał w trakcie wielkiego kryzysu?", [in]: *mises.pl*. Available [online]: <https://mises.pl/blog/2019/11/29/rapka-dlaczego-sektor-rolny-ucierpial-w-trakcie-wielkiego-kryzysu/> [in Polish]

“DURING NEW ZEALAND'S REFORMS, STATE AID TO AGRICULTURE WAS ELIMINATED

LESSONS FROM NEW ZEALAND

Some readers may not believe in proving the counter-effectiveness of subsidies, minimum prices, or restrictive tariffs through economic reasoning. Therefore, it is useful to refer to a real-life example, which is the history of New Zealand in the second half of the 20th century. In 1950, New Zealand had a GDP per capita 26% higher than the average of OECD countries, only to reach a GDP per capita 27% below average in 1990⁴¹.

The reason for this economic regress was a series of misguided decisions by the ruling class for many, many years until 1984, when the long process of reforming the state and the economy began. In the 1970s and 1980s, minimum prices for agricultural products, production input subsidies, low-interest loans, tax breaks, and debt forgiveness were introduced in response to rising oil prices, falling prices for consumer goods, and income from agricultural exports to Britain. In addition, there were high administrative barriers to the import

⁴¹ Cukiernik, T. (2008) *Nowa Zelandia – od kryzysu do gospodarczej prosperity*. Available [online]: http://www.old.pafere.org/artykuly.n263.tomasz_cukiernik_nowa_zelandia_od_kryzysu_do_gospodarczej_prosperity.html [in Polish]

of agricultural products and subsidies for general business, agricultural activities, and exports.

The effect of state support for farmers was to make them insensitive to market signals, decrease innovation, and reduce resource efficiency. A good example is the buyout of land for agricultural purposes, which was not profitable to cultivate without subsidies – by 1984, more than two million hectares were cultivated solely because of subsidies. The buyout of land was accompanied by an increase in land prices, making it unaffordable for poorer farmers.

At the same time, farm productivity and competitiveness on world markets declined. There was also overproduction – for example, in the early 1980s, 39 million lambs were produced for export, only to dispose of 6 million in one year due to lack of demand⁴².

However, during New Zealand's reforms, state aid to agriculture was eliminated⁴³. According to OECD estimates using data from 1986-2016, the share of government support in gross farm income fell from 20% in 1986 to nearly 0% in 2016. Over the same period in the European Union, support declined from less than 40% to about

⁴² See: <https://www.politico.eu/article/viewpoint-farming-without-subsidies-a-better-way-why-new-zealand-agriculture-is-a-world-leader/>; <https://www.tandfonline.com/doi/pdf/10.1080/15693430601108086>; Cukiernik, T. (2008) *Nowa Zelandia – od kryzysu do gospodarczej prosperity*. Available [online]: http://www.old.pafere.org/artykuly.n263.tomasz_cukiernik_nowa_zelandia_od_kryzysu_do_gospodarczej_prosperity.html [in Polish]

⁴³ See: Cukiernik, T. (2008) *Nowa Zelandia – od kryzysu do gospodarczej prosperity*. Available [online]: http://www.old.pafere.org/artykuly.n263.tomasz_cukiernik_nowa_zelandia_od_kryzysu_do_gospodarczej_prosperity.html [in Polish]; Ministry for Primary Industries (2017) *New Zealand Agriculture: A Policy Perspective*. Available [online]: <https://www.mpi.govt.nz/dmsdocument/27282/direct>

20%, with an OECD average of about 16%⁴⁴. What was the effect of this?

Agricultural exports have almost tripled over twenty years – to nearly NZD 5.5 bn (app. EUR 3.3 bn) in 1984 and already NZD 15.3 bn (app. EUR 9.1 bn) in 2004. The export boom was thanks to, among other things, an increase in productivity, despite earlier stagnation of 6% per year – the amount of milk obtained per cow or the production of lambs has increased, even though a decrease in the number of sheep. It shall be noted that productivity growth in agriculture in New Zealand was higher than in the rest of the sectors. The high number of sheep in the country was due to their breeding to receive subsidies. At the same time, the number of employed in agriculture was at a similar level as before the reform, with an increase in the sector's contribution to New Zealand's GDP⁴⁵.

Moreover, the reform of agriculture has also had a positive effect on the environment. With the removal of subsidies for fertilizer use, its use has stabilized at 1984 levels, when it had previously increased by 10% annually. Similarly with pesticides, whose use increased by 8% per year between 1978 and 1984, and after the reforms stopped at the 1984-1985 level. Also, soil destruction, which was a growing problem before the reforms, has stabilized. Forest area increased as well, while

⁴⁴ Ministry for Primary Industries (2017) *New Zealand Agriculture. A Policy Perspective*. Available [online]: <https://www.mpi.govt.nz/dmsdocument/27282/direct>

⁴⁵ See: <https://www.cato.org/commentary/new-zealand-farmers-dont-want-subsidies>; Cukiernik, T. (2008) *Nowa Zelandia – od kryzysu do gospodarczej prosperity*. Available [online]: http://www.old.pafere.org/artykuly.n263.tomasz_cukiernik_nowa_zelandia_od_kryzysu_do_gospodarczej_prosperity.html [in Polish]; Vangelis, V. (2007) "Agricultural Subsidy Reform and Its Implications for Sustainable Development: The New Zealand Experience", [in]: *Environmental Sciences*, Vol. 4(1), pp. 21-40. Available [online]: <https://www.tandfonline.com/doi/pdf/10.1080/15693430601108086>



PRODUCTIVITY GROWTH IN AGRICULTURE IN NEW ZEALAND WAS HIGHER THAN IN THE REST OF THE SECTORS

the area of land devoted to agriculture decreased. The environment was positively affected by the previously mentioned reduction in the number of sheep, which produce greenhouse gases and require the use of water – the consumption of which also decreased in relation to other sectors of the economy⁴⁶.

Of course, we should mention the parallel reduction of taxes for the rest of the economy and the decrease in food prices⁴⁷. Thanks to the reform, a huge part of New Zealand agricultural products could be exported, and it was noticed that the share of higher value products in exports increased. For example, between 1983 and 2002, the share of sheep carcass in exports decreased from 83% to less than 10%, while increasing the share of specific parts of the sheep from 15% to 90%, overall maintaining the increase in the value of exported

⁴⁶ <https://www.oecd.org/greengrowth/35468762.pdf>

⁴⁷ https://ifretrade.org/?/article/liberalising_agriculture_lessons_from_new_zealand

mutton by 123%⁴⁸. The structural change of New Zealand's export means that the domestic production chain has been extended and some workers have been redirected to the production of higher-order goods.

Additionally, wine production has expanded – from six thousand hectares to over thirty-five thousand between 1984 and 2016 – as well as horticulture, whose export revenue increased more than tenfold between 1985 and 2016. That is, farm incomes have generally diversified, which is desirable in times of a crisis⁴⁹.

Some may ask about the cost of this reform. There is no denying that it was a difficult time for many farmers and their families in the country, but this, however it sounds, is normal during the transition from an inefficient industry to one based on market signals.

Only 1% of farmers were unable to adapt to the changes and had to change industries, despite earlier fears of the collapse of small farms⁵⁰. Some workers moved from rural to urban areas to seek work⁵¹. Unfortunately, the New Zealand Labor government has failed with short-term support for struggling farmers during the transition, and as a result, an increase in farm suicides has

⁴⁸ Smith, W. and H. Montgomery (2004) "Revolution or Evolution? New Zealand Agriculture Since 1984", [in]: *Re-Inventing Government: Emerging Geographies in New Zealand*, Vol. 59(2)

⁴⁹ Ministry for Primary Industries (2017) *New Zealand Agriculture. A Policy Perspective*. Available [online]: <https://www.mpi.govt.nz/dmsdocument/27282/direct>

⁵⁰ <https://www.cato.org/commentary/new-zealand-farmers-dont-want-subsidies>

⁵¹ Vitalis, V. (2007) "Agricultural Subsidy Reform and Its Implications for Sustainable Development: The New Zealand Experience", [in]: *Environmental Sciences*. Available [online]: <https://www.tandfonline.com/doi/pdf/10.1080/15693430601108086>



THANKS TO THE REFORM, A HUGE PART OF NEW ZEALAND AGRICULTURAL PRODUCTS COULD BE EXPORTED, AND IT WAS NOTICED THAT THE SHARE OF HIGHER VALUE PRODUCTS IN EXPORTS INCREASED

been noted⁵². However, it should be noted that some rural communities set up Rural Support Trusts to support farm families during these challenging changes. Such trusts still exist today and help, for example, during natural disasters⁵³.

The behavior of the New Zealand electorate is interesting as well – initially, the removal of subsidies was met with opposition from rural areas, only to increase its

⁵² https://ifretrade.org/?/article/liberalising_agriculture_lessons_from_new_zealand

⁵³ Ministry for Primary Industries (2017) *New Zealand Agriculture. A Policy Perspective*. Available [online]: <https://www.mpi.govt.nz/dmsdocument/27282/direct>

“ CERTAINLY, POLISH POLITICIANS CAN ABOLISH ALL PEN- SION AND TAX PRIVILEGES, WITH KRUS AT THE FOREFRONT

hold on the rural electorate in 1987 – including taking back the rural stronghold of the opposition, the Manawatu region⁵⁴. The change in preferences of the electorate confirms the words of Roger Kerry of the New Zealand Business Roundtable, who stated that “*you would be hard pressed to find a farmer who wanted subsidies back*”⁵⁵.

WHAT SHOULD POLAND DO?

Since the Polish legal system is partially dependent on that of the EU, some changes can be made by Poland alone, while others

will require a broad coalition of European countries lobbying across the EU.

Certainly, Polish politicians can abolish all pension and tax privileges, with KRUS at the forefront. The elimination of such a strong financial factor will cause some to abandon their economically irrational farms and move to manufacturing and services, probably from villages to cities. Unfortunately, there, they may face, among others, problems with finding a new job, a higher tax wedge, and a shortage of housing. Therefore, the reform of agriculture in Poland must be a part of a larger, more comprehensive reform and concern the whole economy, as the history of New Zealand teaches us.

Civil Development Forum proposes, among others, reduction of taxation of work of the least productive people or reduction of excessive protection of tenants⁵⁶. In the case of Poland, it can also be recommended to make labor law more flexible, deregulate business regulations in general, and increase the supply of land for residential construction. An increase of land supply can be accomplished by the liquidation of regulations on land trade, as well as by the liberalization of regulations on change of land use.

However, by liquidation of unprofitable farmlands, their plots would be taken over by enterprises or farms, whose productivity is higher, and thus jobs would be created that would create more value for the economy. Specialized farm equipment would also find a larger, more profitable use.

Even greater benefits will be achieved when this is combined with the removal of impediments to land trade, making it possible for high productivity latifundium to emerge. While a larger number of huge farms would lead to lower food prices and create new jobs in the production and export of higher-order goods in this sector. The structural change of farms might ultimately slow down – though not stop – the exodus of workers from the countryside to the cities and give a second life to small municipalities, with an increase in the standard of living of their residents.

The final element within the national government’s reach is, of course, the privatization of state-owned lands and enterprises, which will make competition between farms healthier. On the other hand, privatization of state-owned land will increase the supply of land, which means a decrease or slower increase in prices. This will allow new players with less financial capacity to enter the industry. The obtained funds can be allocated for covering at least a part of costs connected with the reform.

In the EU forum, it is worth fighting for the reduction of customs duties and other administrative barriers to trade. We should return to the discussion on TTIP, i.e. the trade agreement with the United States, and lobby for the most liberal regulations in trade agreements being negotiated with, among others, Australia and New Zealand, and go back to talks with, among others, India and African countries⁵⁷. Furthermore, when negotiating agreements, we should strive for the deregulation of EU agricultural and food regulations, to the extent that these regulations actually restrict freedom of economic activity.

Last but not least, we should limit minimum prices, guarantee purchases, and restrictions imposed on the volume of production. The EU itself has shown quite recently that price controls do not work as they should and do more harm than good. The shaping of supply and demand should be given back to society, so that in the long run everyone – including farmers – benefits. Although legislators should keep in mind that such a change will probably cause changes in the structure of employment and capital, as unprofitable enterprises will collapse and be replaced by new ones.

CONCLUSIONS

As mentioned at the beginning, although the idea of total self-sufficiency of the economy is not very popular today, for many,

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⁵⁴ Vangelis, V. (2007) “Agricultural Subsidy Reform and Its Implications for Sustainable Development: The New Zealand Experience”, [in]: *Environmental Sciences*, Vol. 4(1), pp. 21-40. Available [online]: <https://www.tandfonline.com/doi/pdf/10.1080/15693430601108086>

⁵⁵ See: Cukiernik, T. (2008) “Nowa Zelandia – od kryzysu do gospodarczej prosperity”, [in]: PAFERE. Available [online]: <http://www.old.pafere.org/artykuly.n263.tomasz-cukiernik-nowa-zelandia--od-kryzysu-do-gospodarczej-prosperity.html> [in Polish]. For a more detailed description of the reforms in New Zealand see: Frezza, B. (2015) *New Zealand’s Far-Reaching Reforms: A Case Study on How to Save Democracy from Itself*, Universidad Francisco Marroquin & Antigua Forum Gwatemala; or Jardine, A. (2010) *Agricultural Reform in New Zealand*, Occasional Paper No. 35, Liberales Institut. Available [online]: <https://core.ac.uk/download/pdf/71732533.pdf>

⁵⁶ FOR (2015) *Następne 25 lat. Jakie reformy musimy przeprowadzić, by dogonić Zachód?*. Available [online]: <https://for.org.pl/pl/a/3559,raport-nastepne-25-lat-jakie-reformy-musimy-przeprowadzic-by-dogonic-zachod> [in Polish]

⁵⁷ <https://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/>

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the need to protect selected branches of the economy is like an axiom. Proponents of this view seem to think that in this way they will protect their society from hunger in crisis situations and will have control over the quality of products. The fear of limited access to food is understandable – after all, we have had a problem with it for most of human history – and, thus, we want to feel in control, but the attitude it causes is economically irrational.

The continuation of agricultural policy by the Polish will not lead to food collapse in the country. But by doing so, the economy will not use its full potential, which obviously worsens the food security. As history and economic theory show, it will

take longer for the food market to recover from crises because it is relatively inelastic, and so we cannot expect significant productivity gains in our agricultural fields. This could mean that in the face of climate change, we can forget about store shelves full of relatively cheap goods and we will become dependent on countries where proper agricultural development was previously taken care of.

It may be a paradox to many, but we may achieve greater food self-sufficiency by freeing the industry and allowing it to be regulated directly by the market. In this way, we will effectively and continuously eliminate resource-wasting enterprises while supporting those with increasing productivity. The result is also that more resources are available to the public for use in emergency situations. As the example of New Zealand has shown, letting the market self-regulate means we waste fewer resources while producing more food, which, in turn, will drive down prices and will improve food sovereignty.



*

ALEKSY
PRZYBYLSKI

Financial Analyst, the co-author of comic books about Kapitalis. He is also a blogger at Kulturozofia.pl



Self-Sufficiency Versus Dependence on International Trade: The Lessons from COVID-19 for Ukraine



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VERONIKA
MOVCHAN

The COVID-19 pandemic has exposed both the strength and fragility of international trade links. Like other countries, Ukraine has appeared at the crossroad of two trends. On the one hand, in response to panic, Ukraine had imposed several protective measures, e.g. temporarily banning exports of personal protective equipment (PEP) and some food products. On the other hand, Ukraine has been interested in boosting its exports to counterweight the negative economic trends caused by the pandemic. Moreover, the country has badly needed PEP imports.

Currently, it seems that in Ukraine, proponents of international trade openness have been taking over. However, the challenges exposed by the pandemic, including the fragility of reliance on global markets, remain relevant. This article analyzes Ukraine and its partners' crisis responses within the dichotomy of self-sufficiency versus dependence on international markets. We aim to take lessons on how to ensure both smooth trade and stronger internal crisis resilience.

WORLD TRADE AMID THE COVID-19 PANDEMIC

The initial expectations about global trade trends against the background of the COVID-19 pandemic in 2020 were especially disastrous. According to the WTO assessments presented in April 2020, world trade was expected to decline by approximately 13% and 32%, depending on how the situation would evolve¹. However, despite significant downside risks, international trade appeared to be quite resilient to the shocks.

¹ WTO (2020) *Trade Set to Plunge as COVID-19 Pandemic Upends Global Economy*, Press Release 885. Available [online]: https://www.wto.org/english/news_e/pres20_e/pr855_e.htm

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IT SEEMS
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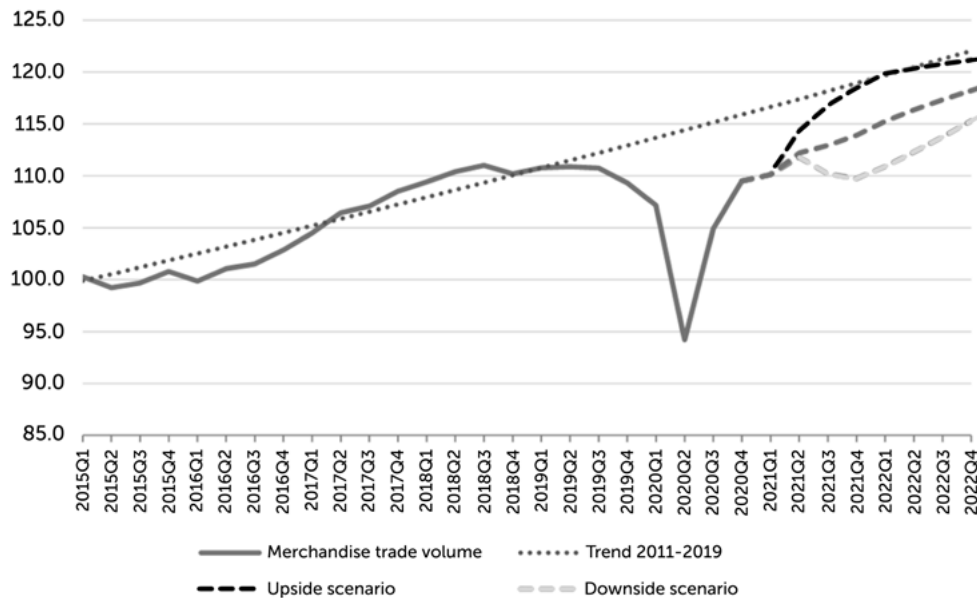
In 2020, world trade reduced by only 5%². According to the WTO, several factors contributed to this better-than-expected trade performance. First, global economic activity and consumption were maintained through strong fiscal and monetary stimulus. Second, households shifted the consumption from non-traded services towards goods to be shipped by expanding delivery services. Third, technologies allowed remote working, thus preventing larger-scale disruptions for many businesses. Fourth, the initial wave of protectionism was constrained and mainly reverted, with many temporary restrictions abolished.

The year 2021 has been the year of recovery. Despite multiple uncertainties, the WTO expects world trade to boost by 8%³. Moreover, the United Nations Conference on Trade and Development (UNCTAD) has

² WTO (2021) *World Trade Primed for Strong but Uneven Recovery after COVID-19 Pandemic Shock*, Press release No. 876. Available [online]: https://www.wto.org/english/news_e/pres21_e/pr876_e.htm

³ Ibid.

Figure 1: World merchandise trade volume (2015Q1-2022Q4) [Index, 2015Q1 = 100]



Source: WTO (2020) *Trade Set to Plunge as COVID-19 Pandemic Upends Global Economy*, Press Release 885. Available [online]: https://www.wto.org/english/news_e/pres20_e/pr855_e.htm

already reported a solid rebound in the first quarter of 2021 at above 10% year-on-year⁴.

However, foremost challenges remain. First, the economic and trade recovery has been uneven as the access to vaccines and vaccination campaigns' results have been very mixed around the globe, undermining recovery potential, especially for emerging markets and developing countries⁵. By late

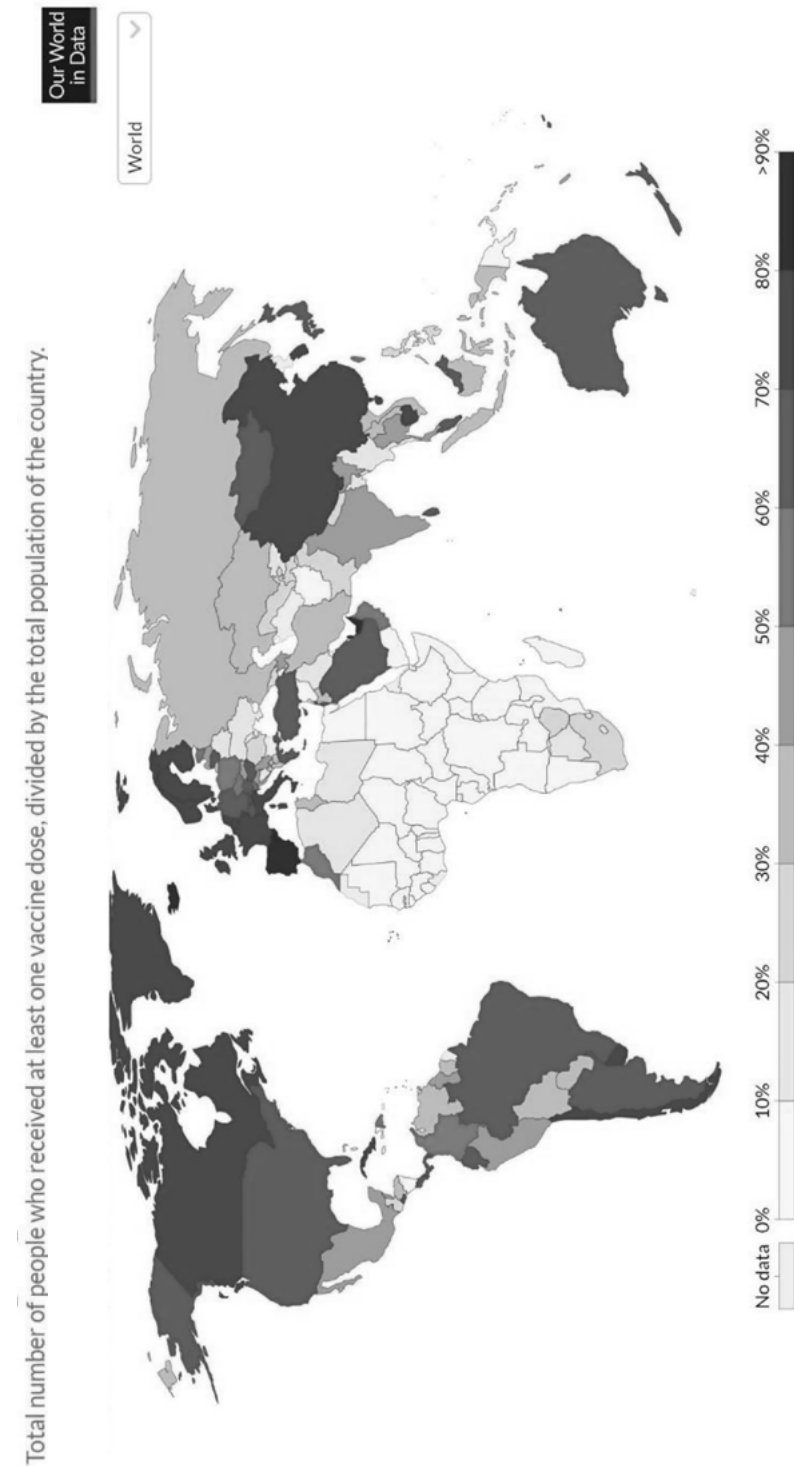
September 2021, over 44% of the world population received at least one dose of a COVID-19 vaccine⁶, but disproportions among countries have been impressive. Even in Europe, the share of people having at least one jab varies from 16% in Ukraine (the lowest) and 28% in Romania to 88% in Portugal. The United States vaccinated about 63% of their population, China – 76%, while the level of vaccination in low-income countries stays only at slightly over 2% [See: Figure 2]. The IMF has already revised its economic forecast for 2021 expecting higher than initially projected growth in the advanced countries and

⁴ UNCTAD (2021) "World Trade Rebounds to Record High in Q1 2021", [in]: *Global Trade Update*, May. Available [online]: https://unctad.org/system/files/official-document/ditcinf2021d2_en.pdf

⁵ IMF (2021) *Fault Lines Widen in the Global Recovery*. Available [online]: <https://www.imf.org/en/Publications/WEO/Issues/2021/07/27/world-economic-outlook-update-july-2021>

⁶ Mathieu, E., Ritchie, H., and E. Ortiz-Ospina, et al. (2021) *A Global Database of COVID-19 Vaccinations*, [in]: *Nat Hum Behav*. Available [online]: <https://our-worldindata.org/covid-vaccinations>

Figure 2: Share of people who received at least one dose of a COVID-19 vaccine (September 25, 2021)



more sluggish recovery of the emerging markets⁷.

Second, continuing transit disruptions result in the rethinking of supply chain architecture, including the shift from *just-in-time*⁸ to *just-in-case* inventory management strategies and the potential *reshoring*⁹. The Institute for Supply Management reports that 56% of their respondents now hold more than usual firms' input inventories¹⁰. The policy study on post-COVID-19 value chains prepared upon the request of the European Parliament explicitly recommends the EU introducing stockpiling obligations for critical goods and creating minimal production capacities for specific critical products, including through targeted reshoring¹¹.

Moreover, soaring food prices continue fueling ideas of self-sufficiency as well as *ad-hoc* trade restrictions. According to the Food and Agriculture Organization

⁷ IMF (2021) *Fault Lines Widen in the Global Recovery*. Available [online]: <https://www.imf.org/en/Publications/WEO/Issues/2021/07/27/world-economic-outlook-update-july-2021>

⁸ A *just-in-time inventory system* means that the company aims receiving the needed components as close as possible to the moment when they are actually needed in the process of manufacturing. That allows reducing storage costs, but makes companies sensitive to supply shocks and disruptions in deliveries. A *just-in-case inventory system* is the opposite. It envisages stockpiling inventories thereby reducing risks at expense of higher storage costs. See: <https://bit.ly/3CQ7H2r>

⁹ *Reshoring* is the process of returning the manufacturing back to the company's original country. It is the opposite of offshoring. See: <https://bit.ly/3CQ6AzN>

¹⁰ Reuters (2021) *Despite Disruptions, Supply Chain Professionals Are Optimistic about the Remainder of 2021*. Available [online]: <https://www.reuters.com/supplychain/supply-chain/despite-disruptions-supply-chain-professionals-are-optimistic-about-remainder-2021>

¹¹ Raza W. et al. (2021) *Post COVID-19 Value Chains: Options for Reshoring Production Back to Europe in a Globalized Economy*. Available [online]: [https://www.europarl.europa.eu/RegData/etudes/STUD/2021/653626/EXPO_STU\(2021\)653626_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2021/653626/EXPO_STU(2021)653626_EN.pdf)

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SOARING FOOD PRICES CONTINUE FUELING IDEAS OF SELF-SUFFICIENCY AS WELL AS *AD-HOC* TRADE RESTRICTIONS

of the United Nations (FAO), the upward food price trend started in mid-2020, amid the pandemic. By August 2021, the FAO Food Price Index was almost 33% higher than a year ago¹², driven by exceptionally high growth of vegetable oils and cereals prices. In February 2021, Russia introduced export tariff quotes and export duties on grains to curb food price growth¹³. India and Turkey, instead, cut import duties on selected agricultural products¹⁴.

AD-HOC TRADE MEASURES APPLIED BY UKRAINE

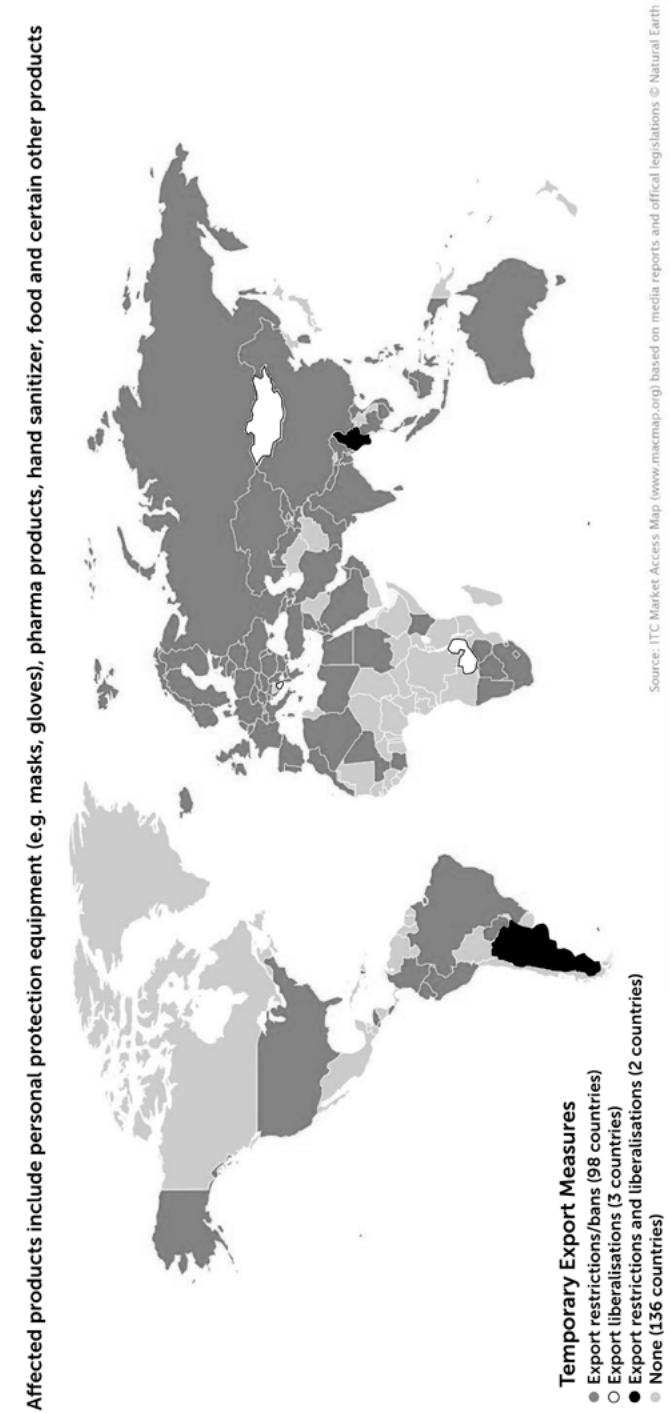
The Market Access Map database of COVID-19 related measures affecting trade in goods includes over 100 WTO members

¹² FAO (2021) *FAO Food Price Index*. Available [online]: <http://www.fao.org/worldfoodsituation/foodpricesindex/en/>

¹³ *Interfax.ru* (2021) "RF Introduces a Grain Export Quota and a Wheat Duty". Available [online]: <https://www.interfax.ru/business/750900>

¹⁴ Sousa de. A. and J. Diamond (2021) "From Turkey to India, Priciest Food Since 1970s Is a big Challenge for Governments", [in]: *Bloomberg*. Available [online]: <https://bit.ly/3m1Z5ze>

Figure 3: The COVID-19 related temporary export restrictions



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 COMPARED
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on exports of medical products for human use and medical devices also in March¹⁸ and terminated it in April¹⁹. On the contrary, Brazil's prohibition of medical supply products and personal protective equipment exports, introduced in April 2020, has not yet been cancelled²⁰. Meanwhile, Poland established the list of medicinal products, foodstuffs for particular nutritional uses, and medical devices threatened by the lack of availability on the territory of the country in April 2020, and has maintained it since then.

Compared to many other countries, Ukraine's immediate trade policy response to the crisis was very moderate. Ukraine has introduced only two temporary restrictions on exports. First, the country temporarily banned the exports of²¹:

- insulated waterproof laboratory suits;
- disposable (single use) insulative medical overalls, gloves of other polymer material;
- nitrile medical gloves, non-sterile, non-starch;
- nitrile non-powdered gloves;
- medical and surgical face masks;
- safety glasses;
- full-face visors;
- respirators with a protection rate of not less than FFP2;

¹⁸ <https://www.noerr.com/en/newsroom/news/slovakia-healthcare-regulations-as-response-to-covid-19-pandemic>

¹⁹ WTO (2021) *COVID-19: Measures Affecting Trade in Goods*. Available [online]: https://www.wto.org/english/tratop_e/covid19_e/trade_related_goods_measure_e.htm

²⁰ Market Access Map (2021) *Tracking of COVID-19 Temporary Trade Measures*. Available [online]: <https://www.macmap.org/covid19>

²¹ Cabinet of Ministers of Ukraine (2020) *Government Decision on Temporary Restriction of Exports of Anti-Epidemic Goods*. Available [online]: <https://www.me.gov.ua/News/Detail?id=ef2fe920-a5fa-41b4-9981-bc136ed436be&isSpecial=true>

and observers and 388 decisions¹⁵. Out of them, 51% are decisions restricting trade, up to bans, while the rest are about trade facilitation.

In both cases, most decisions – to limit and facilitate – concerned food products and health-related goods, including personal protective equipment, pharmaceutical products, and medical devices like oxygen concentrators. Many, although not all, restrictive measures have been repealed later in the year¹⁶.

For instance, France introduced a temporary prohibition on exports of certain medical products in late March 2020, but the decision was repealed already in May¹⁷. Slovak Republic imposed the restriction

¹⁵ Market Access Map (2021) *Tracking of COVID-19 Temporary Trade Measures*. Available [online]: <https://www.macmap.org/covid19>

¹⁶ Ibid.

¹⁷ WTO (2021) *COVID-19: Measures Affecting Trade in Goods*. Available [online]: https://www.wto.org/english/tratop_e/covid19_e/trade_related_goods_measure_e.htm

Figure 4: The COVID-19 related temporary import restrictions

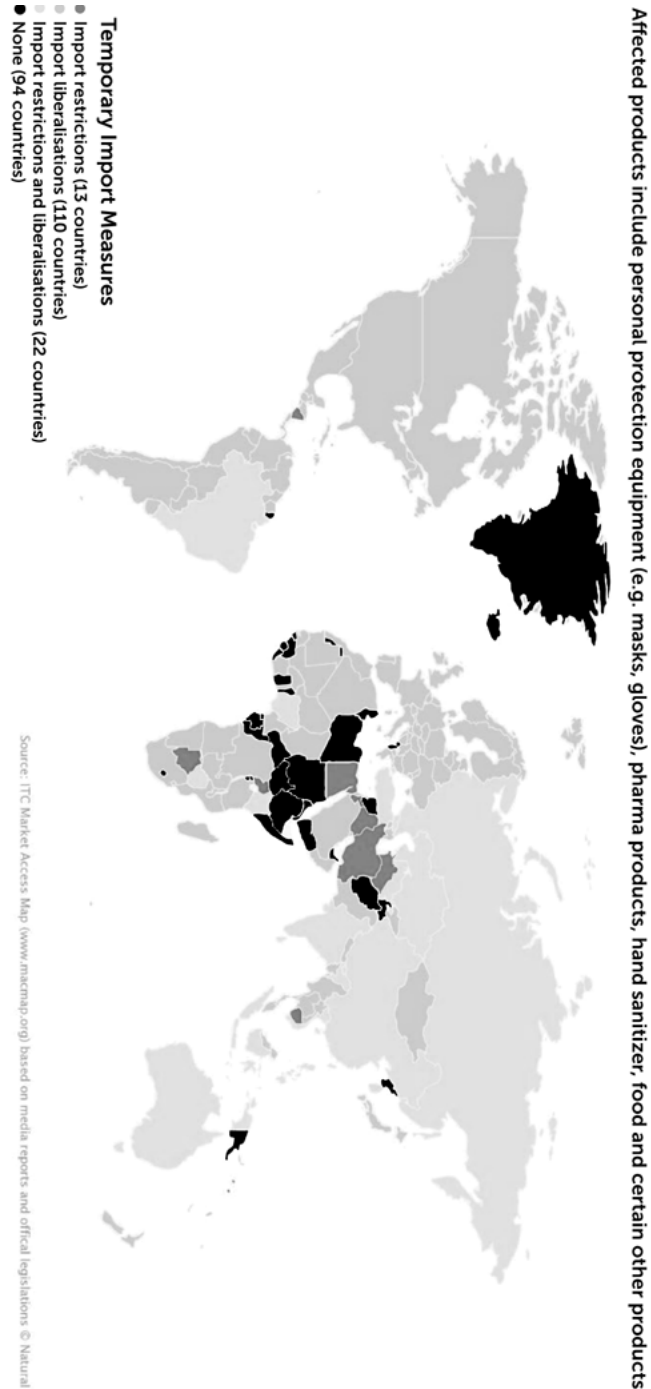
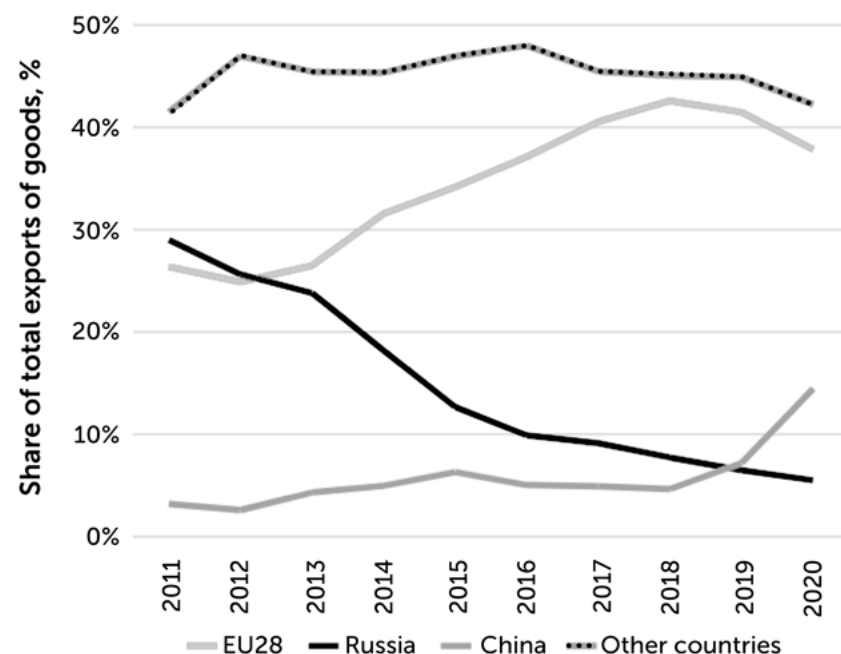


Figure 5: Ukraine's goods exports geography (2011-2020)



Source: Own calculations based on the State Statistics Service of Ukraine data

- undenatured ethyl alcohol of an alcoholic strength by volume of 80% or higher, and;
- ethyl alcohol and other spirits, except for bioethanol, distilled beverages, denatured, of any strength, and similar.

The decision was driven by the need to ensure domestic supply amid the scandal that the country sold *millions of masks* just before the pandemic reached the country. The ban was initially introduced in March 2020, lasting until June 2020, but prolonged and finally expired in August 2020. The removal of restrictions resulted in an accelerated exports of these products in late 2020, but then the situation stabilized. Overall, Ukraine's exports of medical supplies related to COVID-19 increased by 18% in 2020 despite the restrictions.

Second, the country restricted buckwheat exports²² to curb the market's panic after several large exporters like Russia and Kazakhstan announced their restrictions. This restriction was quickly removed as well.

In parallel, already in March 2020, Ukraine temporarily eliminated import duties and VAT on imports of medicine, medical goods, and medical equipment needed to fight COVID-19²³. Unlike export

²² Cabinet of Ministers of Ukraine (2020) *The Government Has Introduced Quotas on Buckwheat Exports Until July 1, 2020*. Available [online]: <https://www.kmu.gov.ua/news/uryad-vviv-kvotuvannya-na-eksport-grechki-do-1-lipnya-2020-roku>

²³ Law of Ukraine (2020). *On Amendments to Certain Legislative Acts of Ukraine Aimed at Preventing the Occurrence and Spread of Coronavirus Disease (COVID-19)*. Available [online]: <https://zakon.rada.gov.ua/laws/show/530-20/ed20210820#Text>

restrictions, import-related measures have remained in place until now.

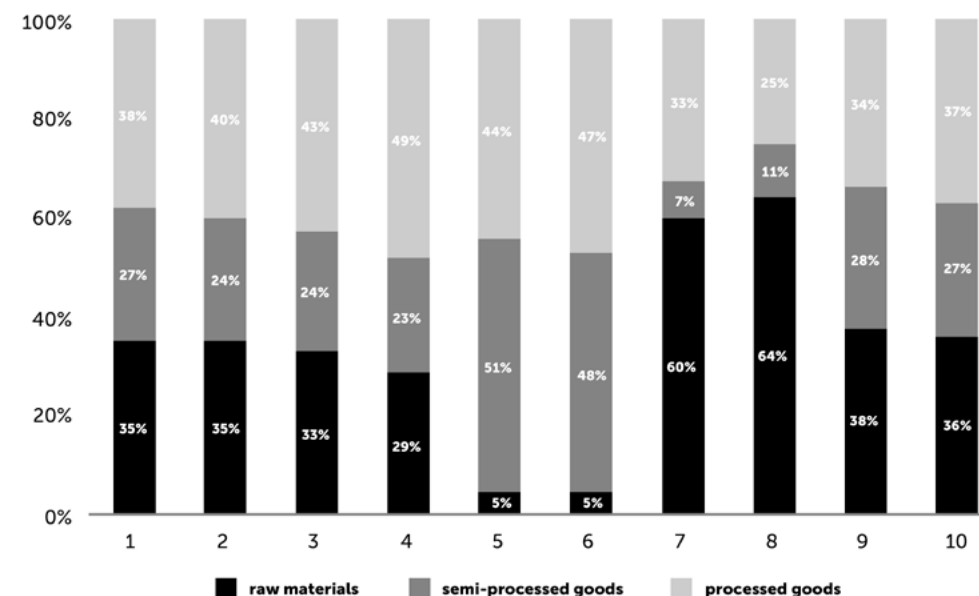
THE ROLE OF INTERNATIONAL TRADE FOR UKRAINE IN 2020

Ukraine is a small, open economy with trade in goods and services accounting for about 100% of GDP. The country relies on international markets for most investment products and mineral energy – including natural gas, oil and petroleum products, nuclear rods, and – after the occupation of Donbas – coal.

On the other hand, Ukraine is a large supplier of agricultural and food products – including cereals and sunflower oil, in the region and globally. Thereby, it makes an essential contribution to global food security.

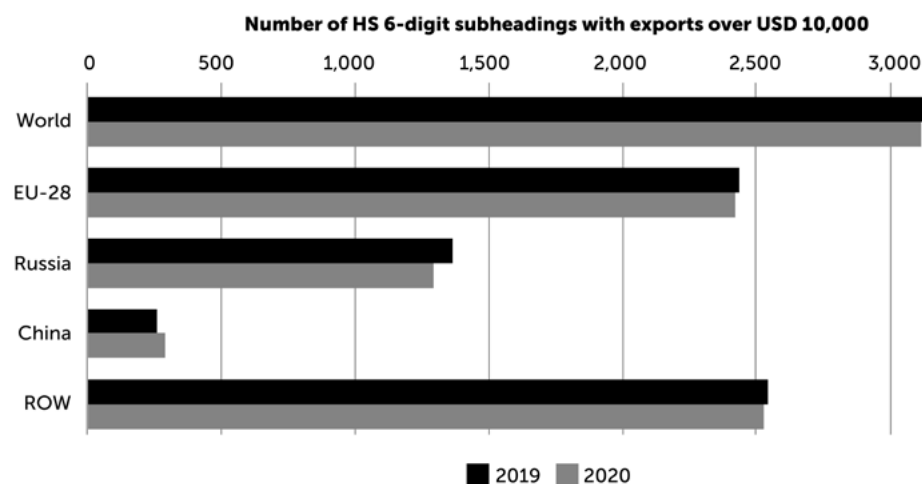
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UKRAINE
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OPEN ECONOMY
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ACCOUNTING
FOR ABOUT 100%
OF GDP

Figure 6: Ukraine's exports of goods by the level of processing



Source: Own calculations based on the following data: State Statistics Service of Ukraine, bi.customs.gov.ua; MTN classification (source: WITS) was used to differentiate goods by level of processing

Figure 7: Variety of Ukraine's exports of goods



Source: Own calculations based on the data by: State Statistics Service of Ukraine, bi.customs.gov.ua; HS at 6-digit level (subheadings)

In 2020, relatively good performance of exports – amid the sharper reduction in imports – allowed maintaining the balance

of payments and contributed to a moderate – by global standards – drop in real GDP. According to the State Statistics Service of Ukraine, in 2020, exports of goods fell by less than 2% compared to the last year and imports of goods reduced by 11%²⁴.

The result of Ukraine's exports highlighted the importance of geographic diversification. The exports to the EU, the largest trade partner, dropped by 10% as its economy was hit hard by the pandemic. However, this decline was counterbalanced by soaring exports to China. In 2020, exports of Ukrainian goods to China grew by an impressive 98%. As a result, the share of China in Ukraine's exports doubled to 14%, while the EU's share of total goods exports fell to 38%²⁵.

²⁴ Ukrstat (2021) *Geographic Structure of Ukraine's Foreign Trade in Goods*. Available [online]: http://ukrstat.gov.ua/operativ/operativ2020/zd/ztt/ztt_u/ztt1220_ue.xls

²⁵ Ibid.

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THE RESULT
OF UKRAINE'S
EXPORTS
HIGHLIGHTED
THE IMPORTANCE
OF GEOGRAPHIC
DIVERSIFICATION

This change may not be stable, though, as Ukraine ships to China primarily commodities. The share of raw materials in Ukraine's exports to China was 64%. Most of them are iron ores and corn. For comparison, the percentage of raw materials in exports to the EU was 29% in 2020, while the share of processed goods increased to 49% compared to 43% in 2019²⁶.

Another significant difference between exports to China and the EU is their variety. Let us consider economically significant export flows (we assume these exports are worth more than USD 10,000²⁷). Ukraine's world exports consist of 3,100 tariff lines out of 5,200 at the level of six digits of harmonized trade nomenclature. Ukraine exports to the EU covers more than 2,400 tariff lines (78% of total). Against this background, the supply to China seems impressively narrow at about 300 tariff lines²⁸. This means that, despite China's growing importance as a trading partner, supplies to this market are very concentrated and cannot effectively replace supplies to other needs, primarily the EU, which absorbs a broader range of Ukrainian goods.

Still, Ukraine's supplies to the EU market are also quite concentrated. The top ten products, including corn, sunflower oil and seeds, iron ores and selected base metals,

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account for almost half of Ukraine's exports to the EU over the last decade²⁹.

In imports, the most significant development of 2020 was the rapid decline in mineral product imports, primarily energy. Due to falling prices and demand, the share of mineral products decreased to 16%. It is the lowest figure in the history of independent

²⁶ Movchan, V. (2021) "There Is Less and Less Room for Russia: How the Year of the Pandemic Affected Ukrainian Trade", [in]: *eurointegration.com*. Available [online]: <https://www.eurointegration.com.ua/articles/2021/03/17/7120886/> [in Ukrainian]

²⁷ Assuming last three-year average exchange rate at USD 1.15 per EUR, USD 10,000 is approximately equal to EUR 8,700.

²⁸ Movchan, V. (2021) "There Is Less and Less Room for Russia: How the Year of the Pandemic Affected Ukrainian Trade", [in]: *eurointegration.com*. Available [online]: <https://www.eurointegration.com.ua/articles/2021/03/17/7120886/> [in Ukrainian]

²⁹ Own estimates using HS2007 at the level of subheadings (6 digits). Data source: <https://wits.worldbank.org/WITS/WITS/Restricted/Login.aspx>



UKRAINE'S TRADE POLICY RESPONSE TO THE COVID-19 CRISIS WAS QUITE MODERATE AND VERY TYPICAL DESPITE THE INITIAL SHOCK

Ukraine. The last minimum of 22% was reached in 2016, and the 50% maximum was in 1996 (the earliest available figure)³⁰.

Less visible in aggregate data, but still very important, were the imports of personal protective equipment, medical devices, and pharmaceutical products needed to fight the COVID-19 pandemic. In 2020, imports for all types of medical supplies related to the COVID-19 treatment³¹ increased by 18%³², in a sharp contrast with the decline of overall imports. Some medical product imports grew even stronger. For instance, imports of disinfectants increased by 39%, diagnostic reagents – by 126%, oxygen – by 140%, while oxygen

³⁰ Movchan, V. (2021) "There Is Less and Less Room for Russia: How the Year of the Pandemic Affected Ukrainian Trade", [in]: *eurointegration.com*. Available [online]: <https://www.eurointegration.com.ua/articles/2021/03/17/7120886/> [in Ukrainian]

³¹ The list of medical supplies related to COVID-19 was established by WITS. Available [online]: <http://wits.worldbank.org/data/public/Covid-19-medical-supplies-HS2017.xlsx>

³² Own estimates based on the WITS database.

therapy equipment – by 500% compared to a year before.

Noteworthy, Ukraine is a net importer of medical supplies related to the COVID-19 treatment. In 2020, Ukraine exported USD 0.5 billion of these products and imported USD 2.8 billion.

COVID-19 LESSONS AND OPPORTUNITIES FOR UKRAINE'S TRADE

The coronavirus crisis has put conventional international trade links under stress due to global-scale supply and demand disruptions. In response to the pandemic threats, the countries had closed their borders, restricted internal mobility and usual business routine, and used trade instruments to regulate trade flows, imposing temporary export restrictions and/or reducing import barriers.

Ukraine's trade policy response to the COVID-19 crisis was quite moderate and very typical despite the initial shock.

Like many countries, Ukraine introduced temporary restrictions on exports of selected medical products. The export restrictions were imposed in March 2020 and lifted in August. They appeared sufficient enough to saturate the domestic market and then supply the excess globally.

The second restriction was on sensitive food products, namely buckwheat. However, it was also quickly removed while Ukraine proclaimed its aim to contribute to global food security by ensuring a stable and growing supply of agro-food products, particularly cereals and sunflower oil, in which the country specializes.

Simultaneously, Ukraine has stimulated the imports of medicine, medical goods, and medical equipment needed to fight with

COVID-19 by completely removing import duties and VAT on these products. These changes have remained in force until now.

The COVID-19 pandemic has also demonstrated the importance of trade diversification – both geographic and product – as Ukraine quickly managed to reorient in export flows.

In the future, Ukraine might try to benefit from the *reshoring* and *just-in-case* approaches to inventory management for the EU, offering production and logistic opportunities. But Ukraine is not the only country in the region. Therefore, to use its chance, the location, high-quality, and relatively cheap labor force must complement an attractive investment climate.



VERONIKA
MOVCHAN

Academic Director at the Institute for Economic Research and Policy Consulting (IER), Ukraine. Her main research interests include trade policy, regional integration, and modelling of policy changes. She has been a team leader/trade expert on many international projects in Eastern Europe and Central Asia. In 2014-2015, she was a member of the EU-Ukraine Civil Society Platform



Food Self-Sufficiency: An Analysis of a Defeated Czech Bill



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MARTIN
PÁNEK

On January 20, 2021, the Chamber of Deputies of the Parliament of the Czech Republic approved an amendment to the Food Act proposed by the Freedom and Direct Democracy Party (SPD)¹, which implements an unprecedented anti-market measure in the form of food sales quotas into Czech legislation. The legal norm favors Czech producers over foreign competitors by setting minimum quotas for specific food-stuffs sold (not offered) in retail outlets with an area of more than 400 square meters. However, this amendment is a completely unnecessary state intervention in the principles of the free market and free international trade. These would positively impact economic rents for a narrow interest group of domestic agricultural producers, but would negatively impact the rest of the society, particularly by reducing the freedom of choice of consumers and retailers, reducing the availability of selected foods, upward pressure on prices, etc.

Arguments put forward by sponsors of the legislation can be summed up as: “[1] will enable regional food producers to better establish themselves in the domestic market, [2] help [...] maintain employment in rural areas and ultimately [3] reduce the carbon footprint by reducing food imports across Europe”².

The controversy surrounding the issue is evidenced not only by the heated expert debate, which has seen absurd arguments

¹ Amendment 6687 to the bill “Sněmovní tisk 502, Novela z. o potravinách a tabákových výrobcích – EU”. Available [online]: https://public.psp.cz/sqw/historie_sqw?t=502&o=8 [in Czech]

² Horáček, F. (2020) “České maso, zelenina i gouda. Poslanci chtějí omezit potraviny z dovozu”, [in]: *iDnes*, May 26. Available [online]: https://www.idnes.cz/ekonomika/domaci/potraviny-sobestacnost-cesko-jidlo-regionalni-potraviny-zakon-novela.A200525_200502_ekonomika_rts [in Czech]

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THE CHAMBER
OF DEPUTIES
OF THE PARLIAMENT
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PUBLIC APPROVED
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WHICH IMPLEMENTS
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ED ANTI-MARKET
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IN THE FORM
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QUOTAS
INTO CZECH
LEGISLATION

from the proponents of the regulation³, but also by the declarations of eight EU countries with a negative opinion on the plan, as

³ For example, when defending the standard on the floor of the Chamber of Deputies, Minister of Agriculture Miroslav Toman (ČSSD) argued that milk produced in Germany is served with coffee in the Chamber of Deputies, which, in his opinion, confirms the necessity of adopting the regulation. However, even without regulation, everyone, including ministers and MPs, has the freedom to choose what milk to consume in their coffee – even milk from Czech producers.

well as the debate on the inconsistency of the regulation with EU law.

The Senate of the Parliament of the Czech Republic has rejected an amendment to the Food Act proposed by a group of MPs to increase food self-sufficiency. The bill was ultimately rejected, after pressure mounted on the Prime Minister to not support this bill. However, food self-sufficiency is an idea that never dies, and it is certain to make a comeback sooner or later. The relevant interest groups have lobbied for

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thirty years and are unlikely to give up. We therefore consider the issue not moot and analyze it.

This study provides a brief analysis of the text of the proposal and a description of the current situation on the Czech food market.

A PROBLEMATIC BILL

The key passage of the amendment to the Food Act is the following text:

“(3) A food business operator operating a retail outlet shall ensure that the proportion of selected staple foods from the short supply chain [...] sold to final consumers in each retail outlet operated by him is

(a) a minimum of 55% in calendar year 2022, [...]

g) a minimum of 73% in calendar year 2028 and subsequent years.”

CRITIQUE

There are several problems with the proposal – it is illegal under both EU and WTO law, it is very poorly drafted and would lead to perverse outcomes for the retailers, resulting in sub-optimal allocation of resources and bigger environmental impact. The selection of the items is so absurd and frivolous it borders on the ridiculous.

ECONOMIC AND LEGAL PROBLEMS

According to the Liberal Institute, in terms of the economic problems of food self-sufficiency, *“the proposal is anti-consumer, non-environmental, illegal, and helps dominant players such as the Agrofert Group”*⁴.

⁴ Pánek, M., Nohejl, J., and M. Hampl (2020) “Potravinná soběstačnost – drahý a nebezpečný nápad”, [in]: *Liberal Institute – Studies and Proceedings*, June 1.

In addition to the legal problems⁵, according to press reports, ambassadors to the Czech Republic have objected to the bill and so has the European Commission itself⁶.

Rulings of the Court of Justice of the European Union (CJEU) in *Costa v. ENEL (6/64)*, *Pubblico Ministero v. Ratti (148/78)*, and other cases⁷ state that EU law is superior to national law and takes precedence over national law in case of conflict between the two. If the expert community agrees that the bill in question contradicts superior law, and the European Commission has signaled the same, it is reasonable to assume that the strong players in the market would rate the chances of a final victory before the CJEU as high and would not address these provisions of the bill.

However, as smaller market players are more risk averse and have fewer resources to litigate, there is a strong presumption that they would be more likely to comply with the provisions than large market players, putting them at a disadvantage and making them irreversibly damaged after a future presumed ruling of illegality of the bill⁸.

⁵ Ibid., p.7ff.

⁶ *Novinky.cz* (2021) “Velvyslanci v ČR se ohradili proti kvótám na potraviny. Diskriminace je v EU nepřipustná”, January 20. Available [online]: <https://www.novinky.cz/ekonomika/clanek/velvyslanci-v-cr-se-ohradili-proti-kvotam-na-potraviny-diskriminace-je-v-eu-nepripustna-40348413> [in Czech]; Daněk, V. (2021) “Kvóty na české potraviny mohou v Bruselu narazit. Evropská komise před nimi už dvakrát varovala”, [in]: *iRozhlas.cz*, January 21. Available [online] https://www.irozhlas.cz/zpravy-svet/kvoty-na-ceske-potraviny-evropska-unie_2101211159_pj.

⁷ See: *EUR-Lex* (2021) “Glossary of Summaries”, August 28. Available [online]: https://eur-lex.europa.eu/summary/glossary/primacy_of_eu_law.html.

⁸ For more on the disparate impact of regulation, see: Stigler, G. (1971) “The Theory of Economic Regulation”, [in]: *The Bell Journal of Economics and Management Science*, Vol. 2(1), spring 1971, pp. 3-21. See also and subsequent economic theory of regulation.

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AN AVERAGE
CZECH CONSUMER
CONSUMES
70 TIMES LESS
BEANS THAN
POTATOES.
ACCORDING
TO THE FAO,
THE CZECH
REPUBLIC HAS
A SELF-SUFFICIENCY
RATE OF 0%
FOR BEANS,
WHILE THE CZECH
STATISTICAL OFFICE
(CZSO) REPORTS
A SELF-SUFFICIENCY
RATE OF OVER 100%
FOR POTATOES
(ACCORDING
TO THE FAO DATA,
POTATOES HAVE
A SELF-SUFFICIENCY
RATE OF 78%)

PROBLEMS WITH ITEM SELECTION

The authors of the bill do not explain how they have drawn up the list of foodstuffs covered by this legislation. It remains unclear why, for example, potatoes are included but not Coca-Cola, since both foods originally came from the Americas but are now produced exclusively from local sources.

It is also not clear why there are items on the list that are practically impossible to produce in the Czech Republic. An example for all of them is item 10.84.30 *Food salt*. The Czech Republic, having neither salt mines nor sea, is thus at a considerable disadvantage in the production of salt.

*"Occurrences of [halite] in the Czech Republic are insignificant, e.g., Ostrava (in mines, stalactites formed from the salt content of topsoil), larger deposits are in Slovakia (Solivar near Prešov, Michalovce), Austria (Hallstadt, Bad Ischl – Triassic), Poland (Wieliczka), Germany (Stassfurt, Hannover) or the Garabogazköl lagoon (Caspian Sea)."*⁹ Production in Solivar was discontinued in 2009¹⁰.

PROBLEMS WITH COUNTING BY TOTAL WEIGHT

The bill states that the proportion is calculated on the "total volume of food [...] sold by the operator [...] in relation to the total volume of food", where volume here means weight ("expressed in units of weight"). Why the weight of, for example, potatoes, milk, and sunflower seeds should be added together is not explained.

⁹ Vávra, V. and Z. Losos (2013) "7.3 Halovce", [in]: *Multimediální studijní texty z mineralogie pro bakalářské studium*, January 11. Available [online]: https://mineralogie.sci.muni.cz/kap_7_3_halov/kap_7_3_halov.htm [in Czech]

¹⁰ *MúzeumSolivar.sk* (2021) "The History of the Salt Plant", September 19. Available [online]: <https://muzeumsolivar.sk/en/the-history-of-the-salt-plant/>

The law can thus be complied with by excessive sales of cheap (and purposefully even more cheapened) but substantial domestic food, which the Czech consumer likes to buy, compared to foreign and more expensive food, which the Czech consumer buys in smaller weights. For example, an average Czech consumer consumes 70 times less beans than potatoes. According to the FAO, the Czech Republic has a self-sufficiency rate of 0% for beans, while the



SINCE THE CZECH REPUBLIC IS A FREE COUNTRY AND A MARKET ECONOMY, RETAIL OUTLETS CANNOT FORCE CONSUMERS TO BUY CZECH FOOD OVER IMPORTED FOOD – AT MOST, THEY CAN INCENTIVIZE THEM, FOR EXAMPLE, WITH A LOWER PRICE OR AN ADVERTISING CAMPAIGN

Czech Statistical Office (CZSO) reports a self-sufficiency rate of over 100% for potatoes (according to the FAO data, potatoes have a self-sufficiency rate of 78%).

PROBLEMS WITH THE OBLIGATION TO SELL IN EVERY SHOP

According to the bill, the obligation is to *sell*, not just *offer*, specified weights is in "any [...] retail establishment".

Since the Czech Republic is a free country and a market economy, retail outlets cannot force consumers to buy Czech food over imported food – at most, they can incentivize them, for example, with a lower price or an advertising campaign. However, as small and specialized (and probably also internet) shops are exempted from the regulation, shops may find themselves in a situation at the end of the year where they will need to sell a larger share of Czech food to *catch up* with the mandatory share. They may thus find themselves selling, e.g., potatoes, well below cost, leading to waste, deadweight losses, and excessive emissions.

The supermarket chains can solve this problem more easily by having stores sell their goods within the chain at the end of the year in such a way that the discount promotions are the least profitable for them. Small players do not have this option.

DATA

The data used for the following analysis is a compilation of three sources:

1. One set of data comes from the Czech Statistical Office (CZSO). CZSO publishes data on food consumption¹¹ and

¹¹ Czech Statistical Office (2020) "Spotřeba potravin - 2019", [in]: *Czech Statistical Office*, December 1. Available [online]: <https://www.czso.cz/csu/czso/spotreba-potravin-2019>, Table 1.

on harvesting¹², including household harvests¹³. The data must be recalculated according to the mean of population¹⁴. The data used is for 2019, own calculations. Methodology: self-sufficiency = per capita production / per capita consumption × 100.

2. Another set of data comes from the *Report on the state of agriculture in the Czech Republic in 2018*, the so-called *Green Report*¹⁵. It contains calculations for selected foodstuffs, whereas the data is used for the last published year. Methodology can be found in *Ibid*.
3. A third set of data comes from the Food and Agriculture Organization of the United Nations¹⁶. 2019 data is used, supplemented with our own calculation according to the methodology available in the FAO Statistical Pocket Book¹⁷: self-sufficiency = production × 100 / (production + imports – exports).

¹² Czech Statistical Office. (2020b) "Definitivní údaje o sklizni zemědělských plodin – 2019", [in]: *Czech Statistical Office*, February 18. Available [online]: <https://www.czso.cz/csu/czso/definitivni-udaje-o-sklizni-zemedelskych-plodin-2019>, Tables 2 and 3.

¹³ *Ibid.*, Table 2.

¹⁴ Czech Statistical Office. (2020c) "Obyvatelstvo - roční časové řady", [in]: *Czech Statistical Office*, June 5. Available [online]: https://www.czso.cz/csu/czso/obvyvatelstvo_hu [in Czech]

¹⁵ Ústav zemědělské ekonomiky a informací pod gesci Ministerstva zemědělství (2019) "Zelené zprávy", [in]: *eAgri.cz*. Available [online]: <http://eagri.cz/public/web/mze/zemedelstvi/publikace-a-dokumenty/zelene-zpravy/> [in Czech]

¹⁶ Food and Agriculture Organization (2021) "Crops and Livestock Products", [in]: *FAOSTAT*, February 9. Available [online]: <http://www.fao.org/faostat/en/#data/TP> [in Czech]

¹⁷ Food and Agriculture Organization (2012) *FAO Statistical Pocketbook 2012: World Food and Agriculture*.

Even in the CZSO data, the items are not broken down according to the CZ-CPA 2015 classification used in the bill, so the following subchapter is a gross figure for the whole category, not broken down by a more detailed classification, as the bill would require. Since the law does not assume that the standard is met for each item separately, we believe that the data obtained in this way is sufficient for an analytical judgement on the Czech market.

DATA FOR INDIVIDUAL ITEMS

Table 1 shows the level of self-sufficiency for each item according to the three sources. Items with self-sufficiency below 73% are shown in bold.

As a side note, we have contacted selected manufacturers and importers to obtain further data. According to Danone's reply and its own calculations, the self-sufficiency in yoghurt production is 110.5%. Yoghurt is listed as entry 10.51.52 *Yoghurt and other fermented or acidified milk or cream*, but the individual ingredients of yoghurt (such as milk and fruit) are already listed in the table above, as it is based on data from producers, not processors or retailers.

BRIEF COMMENTARY ON SELECTED ITEMS

To further highlight the absurdity of the proposal and to bring home how unworkable this bill (should it ever become law) would be, let us make a brief commentary on selected items.

TOMATOES: 19% SELF-SUFFICIENCY

The current situation does not meet regulatory expectations. Tomato is a fruit for which growing conditions in the Czech Republic are favorable only seasonally and depending on the weather. Countries with better growing conditions, particularly in the subtropical zone, have absolute and relative comparative advantages, reflecting the



IGNORING THE ADVANTAGES OF FOREIGN IMPORTERS IMPLIES HIGHER PRODUCTION COSTS (GREENHOUSE CULTIVATION), WHICH WILL LEAD TO HIGHER PRICES OR REDUCED AVAILABILITY OF TOMATOES.

availability of goods all year round at prices affordable to all classes of the population. Ignoring the advantages of foreign importers implies higher production costs (greenhouse cultivation), which will lead to higher prices or reduced availability of tomatoes.

For the items listed below, essentially the same geographic and economic conclusions apply, so let us not repeat them.

FRUIT: LOW SELF-SUFFICIENCY (EXCEPT FOR APPLES AND CHERRIES)

As Table 1 suggests, the Czech Republic is inefficient in the production of almost all fruits, be it wine grapes, pears, apricots,

Table 1: Self-Sufficiency for Specific Foodstuffs in the Czech Republic

Item	Self-sufficiency	Data source	Item	Self-sufficiency	Data source
Beans	0.00%	FAO	Cherries	102.56%	CZSO
Peas	144.90%	FAO	Peaches	13.92%	CZSO
Other green leguminous vegetables	52.94%	FAO	Plums	46.78%	CZSO
Soya beans	64.10%	FAO	Other pome and stone fruit	39.47%	FAO
Mustard and rapeseed	103.64%	FAO	Strawberries	23.65%	CZSO
Sunflower seeds	21.62%	FAO	Natural honey	81.82%	FAO
Other oilseeds	266.67%	FAO	Beef	121.60%	Green Report
Cabbage	47.20%	CZSO	Pork	51.50%	Green Report
Lettuce salad	63.50%	CZSO	Mutton	102.60%	Green Report
Spinach	53.55%	CZSO	Poultry meat	72%	Green Report
Paprika	20.74%	CZSO	Vegetables	31.50%	Green Report
Cucumber salad and cucumber pickles	27.26%	CZSO	Fruit and nuts	77.10%	Green Report
Tomatoes	19.30%	CZSO	Other animal fats	54.29%	FAO
Carrots, turnips, and turnips	48.15%	CZSO	Sunflower oil, crude	166.67%	FAO
Garlic	28.04%	CZSO	Canola, rapeseed, and mustard oil, crude	180.75%	FAO
Onion	43.15%	CZSO	Other oils	131.25%	FAO
Potatoes	101.99%	CZSO	Milk	137.80%	Green Report
Potatoes	78.07%	FAO	Milk	109.62%	FAO
Wine grapes	59.77%	FAO	Butter	50.00%	FAO
Apples	75.29%	CZSO	Sugar	187.09%	FAO
Pears	53.29%	CZSO	Eggs	90.60%	Green Report
Apricots	40.29%	CZSO			

Source: Own calculation based on statistical data for Hungary

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COMPLETELY
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peaches, plums, or strawberries. The only exceptions are apples and cherries – both fruits are not very demanding and do not need sustained high temperatures. The region of Central Europe's comparative advantage surely does not lie in producing fruits. For example, Faro in Southern Portugal registers around 3,000 hours of sunshine annually¹⁸, meanwhile Prague registers only about half¹⁹.

“According to the Vegetable Growers' Union of the Czech Republic, the self-sufficiency of the Czech Republic is lower than 30%, for example in the production of

cucumbers, tomatoes, cauliflowers, kohlrabi, or garlic, while in the case of onions or potatoes the current self-sufficiency is higher than 55%. The situation is similar in fruit production – although self-sufficiency in the dominant fruit, apples, is around 60%, this is rather exceptional. A number of other species, such as apricots, are well below 55%, and some species, such as currants, gooseberries and similar species, are currently grown in the Czech Republic only to a very small extent,” comments an agricultural analyst Petr Havel in the press²⁰.

Havel also addresses claims made by the sponsors of the bill that Czech farmers will increase production of foodstuffs that are currently under the bill's limits:

“It is not possible to increase production year-on-year, often by even one percent, because it requires considerable investment and because the climatic conditions are unsuitable for the increase in fruit and vegetable production in the Czech Republic. Not all crops can be grown in greenhouses. And for those that can be grown, greenhouses must be built – and this is expensive and takes time, certainly not just one year,” explains Havel further²¹.

**SALT, BEANS, YEAST:
ZERO SELF-SUFFICIENCY**

Completely without any sense of reality, the bill also included items in which the Czech Republic has zero self-sufficiency. In addition to salt, mentioned previously, these include beans or yeast. The comparative advantage for these foodstuffs lies elsewhere:

²⁰ Adamcová, P. (2021) “Česko bude bez vína, zeleniny i vepřového. Sny agrobaronů u řady položek splnit nejde”, [in]: *Aktuálně.cz*, January 21. Available [online]: <https://zpravy.aktualne.cz/finance/nakupovani/potravinova-sobestacnost/r~8c2d3bc65bce11ebb408ac1f6b220ee8/> [in Czech]

²¹ Ibid.

“In the European Union, the most cultivated legumes are peas, with more than half the share, and broad beans, with less than 10%. Lupin, beans, lentils, and vetches are grown to a lesser extent. [...] Lentils are mainly imported from Canada, common beans mainly from Ethiopia, China and Myanmar, and other types of beans mainly from China”²².

Yeast is also not produced in the Czech Republic. Importers import it “from Hungary, Poland, France, Ukraine and several other European countries”²³.

**GARLIC AND ONIONS: 28% AND 43%
SELF-SUFFICIENCY**

Opinions on garlic are diametrically opposed – according to Horace, it is “more baneful than hemlock”²⁴, but according to the tastes of contemporary consumers, garlic, with its higher essential oil content and stronger taste, is increasingly popular. “The interest in garlic is huge and is not decreasing. On the contrary, our garlic is also increasingly in demand abroad,” says domestic garlic breeder Jan Kozák²⁵. The fact remains, however, that the Czech supply of garlic is far from sufficient to meet demand – according to data, Czech supply does not satisfy even a third of domestic demand, and must be imported from Spain or China, among others.

²² Příbík, O. (2014) “Luskoviny v posledních letech mizí z našich polí”, [in]: *Zemědělec.cz*, April 22. Available [online]: <https://www.zemedelec.cz/luskoviny-mizi-z-nasich-poli/> [in Czech]

²³ *iDnes.cz*. (2020) “Češi vykouplí droždí. Oproti normálu je zájem pětinasobný, říká dodavatel”, [in]: *iDnes.cz*, March 23. Available [online]: https://www.idnes.cz/ekonomika/domaci/drozd-drozd-kvasnice-pecivo-zasoby-koronavirus-covid-19.A200323_112155_ekonomika_mato [in Czech]

²⁴ Horace. 30 B.C. “Ode III”, [in]: *Epodes*.

²⁵ Seidl, L. (2016) “Češi propadli domácímu česneku. V čem je jeho tajemství?”, [in]: *Tyden.cz*, December 8. Available [online]: https://www.tyden.cz/rubriky/relax/apetit/cesi-propadli-domacimu-cesneku-v-cem-je-jeho-tajemstvi_408774.html [in Czech]

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THE FACT REMAINS,
THAT THE CZECH
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FROM SPAIN
OR CHINA,
AMONG OTHERS

The current COVID-19 pandemic has shown that global supply chains are robust and work even in unusually challenging times full of movement restrictions. Czech consumers have plenty of garlic available even in this situation. However, Czech society is at a significant disadvantage in the event of a large-scale vampire attack.



THE CURRENT COVID-19 PANDEMIC HAS SHOWN THAT GLOBAL SUPPLY CHAINS ARE ROBUST AND WORK EVEN IN UNUSUALLY CHALLENGING TIMES FULL OF MOVEMENT RESTRICTIONS

Onion finds less use in combating imaginary threats of supply chain disruption or mythical creatures. It is imported to the Czech Republic from countries as diverse as Egypt and New Zealand. Rather than crying tears, one should be filled with joy when cutting a vegetable so well-traveled.

SUNFLOWER SEEDS: 21% SELF-SUFFICIENCY

Already the 19th-century French economist Frédéric Bastiat wrote ironically that *“the sun [...] has for that haughty island [perfidious Albion] a respect that he does not show for us”*²⁶. And while Bastiat’s example is a complaint by candle-makers about

unfair competition from the sun, the growers of sunflowers, a flower that turns after the sun, see it the other way round. For their commodity, on the contrary, more sunshine is more favorable. And while the Czech Republic, unlike the United Kingdom, according to FAO data, does produce at least some sunflower seeds, it cannot compare with countries such as Romania or Bulgaria, which produce one to two orders of magnitude more tons of sunflower seeds.

However, unlike the bill’s sponsors, Bastiat²⁷ knew that free trade leads to prosperity.

CONCLUSION

The proposal to increase the food self-sufficiency of the Czech Republic is not only anti-consumer, it is non-ecological and illegal. It is also discriminatory, aimed at helping the big players in production and sales. It is also confusingly written and does not reflect the situation in Czech agriculture.

The content of the bill lacks economic rationale, nor does it reflect the basic principles of international trade (absolute and relative comparative advantages of production and exchange). Moreover, it was proposed in an emergency (the COVID-19 pandemic) and the targets set as early as 2022 provided minimal room for domestic producers to react, especially in view of the significant investments expected in production processes. Even so, the expected negative effects of the amendment would not be eliminated, and the regulatory burden would ultimately be shifted by the supply chain to the consumer, who would bear the most significant part of the economic costs in saturating preferences.

²⁷ As well as other economists – see: Pánek, M., Nohejl, J., and M. Hampl (2020) “Potravinová soběstačnost – drahý a nebezpečný nápad”, [in]: *Liberal Institute – Studies and Proceedings*, June 1.

²⁶ Bastiat, F. (1845) “A Petition”, [in]: *Econlib.org*. Available [online]: https://www.econlib.org/library/Bastiat/basSoph.html?chapter_num=11#book-reader



THE PROPOSAL TO INCREASE THE FOOD SELF-SUFFICIENCY OF THE CZECH REPUBLIC IS NOT ONLY ANTI-CONSUMER, IT IS NON-ECOLOGICAL AND ILLEGAL. IT IS ALSO DISCRIMINATORY, AIMED AT HELPING THE BIG PLAYERS IN PRODUCTION AND SALES

Therefore, it is recommendable that the Parliament ultimately rejected this proposal, and it is further advised that in the future the Czech Parliament spends its time on better ideas.

For the agro-lobby, increased food self-sufficiency is one of their long-held wishes, one can read about it in most of their media appearances as well as in their own

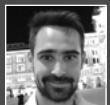
documents. Politicians in the populist parties will, no doubt, try to implement same or similar measures – maybe more skillfully drafted – in the upcoming 2021–2025 term. Ultimately, the bill was killed only when the Prime Minister realized its illegality under EU law and instructed his own party, ANO, to drop its support. It is, therefore, of utmost importance that liberals have their arguments ready when the next attempt comes up.



MARTIN PÁNEK

Director of the Liberální Institut based in Prague, the Czech Republic

Regional Economic Policy and Self-Sufficient Economies in the Shadow of Climate Change



*
PÉTER
KEREKES

One of the defining processes in the world market economy transformed by globalization is the appreciation of localization. The intensification of regionalization processes also means that communities seek solutions to economic challenges locally by trying to create self-sufficient economies by relying on locally available resources. The European Union (EU) is placing an increasing emphasis on regional development and economic policy. In addition to the Member States, the EU also provides significant support for regions and cities in order to promote local cooperation and local self-sufficiency, such as in Brandenburg. There are many positive developments in Brandenburg, but there are still only partial results in creating a self-sufficient region and in bringing East German regions economically closer to the developed West German regions¹. It can also anticipate a trend that will lead to the creation of a *Europe of the Regions*, replacing the *Europe of the Member States*².

There are several reasons why the EU supports the regions. One of the main reasons is to catch up with less developed regions. The second main reason is security policy, and the third main reason is climate change. Although self-sufficiency as a cause is rarely used as an argument, it can be concluded from the efforts that the EU, due to the vulnerability of certain territories, with its support, seeks to improve the self-sufficiency of the regions. These territories for support are either underdeveloped, on the fringes of the EU, or threatened by climate change.

¹ https://ec.europa.eu/regional_policy/hu/newsroom/news/2018/05/05-11-2018-eu-cohesion-policy-post-2020-supporting-new-and-traditional-demands

² Imre, L. (2003) "Verseny és területi fejlődés Térségek Versenyképessége Magyarországon", [in]: *JATEPress Szeged*.

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THE EUROPEAN UNION (EU) IS PLACING AN INCREASING EMPHASIS ON REGIONAL DEVELOPMENT AND ECONOMIC POLICY

First, we may think that the concept of globalization-localization is one based on an opposition, or two kinds of the same economic process. However, the reality is that localization is part of globalization³. This phenomenon, or economic process, can be observed primarily in knowledge-based advanced economies—such as the United Kingdom, the United States of America, or the European Union.

The main motivation for the resurgence of regional economic policy is to gain a competitive advantage in the global market, in local activities where companies can gain a market advantage⁴. These market advantages are concentrated in a specific geographical territory (for example, Blue Banana Zone in the European Union, Silicon Valley). These market benefits are often linked to a locality or a city.

³ Ibid.

⁴ Nemes N. J. (1987) *A regionális gazdasági fejlődés összehasonlító vizsgálata*, Akadémiai Kiadó Budapest.



THE REALITY IS THAT LOCALIZATION IS PART OF GLOBALIZATION

It has been accepted that globalization results in a reorganizing of a regional division of labor as companies relocate certain activities to less developed regions. These activities usually entail a lower competitive advantage in the production chain (for example, an activity that can be performed without knowledge). Trends that emphasize the crucial importance of geographical concentration/deconcentration soon became popular in economics, but this concentration is not observed for all activities, only for companies engaged in traded activities that want to benefit from local advantages⁵.

Although the trend is good, and fundamentally globalizing market economy processes also contribute to the development of regional economic policies, we cannot ignore the following two important findings on this topic:

1. **Regions compete with each other** (for example, for workers, for knowledge, with better quality cheaper locally produced products in order to protect markets from non-locally produced

products) **and only those regions or self-sufficient communities that operate according to or develop an appropriate strategy will be successful in the long run.** Territorial units are competitive if their economy is open and their per capita income is consistently high and growing. As well as a high and non-declining employment rate, i.e. broad sections of the population are expected to benefit from this income⁶. In the case of self-sufficient communities, self-sufficiency can only be achieved if these communities remain competitive with the external market. In the event that the self-sufficient community is unable to compete with the non-community market, their self-sufficiency cannot be achieved in part or in full because the external market controls the self-sufficiency market because it can provide a service to local communities at a lower price and better quality. If the local community pursues an overly protectionist economic policy, it can lead to a kind of isolation that can negatively affect the local community. A good example of this is the Brexit referendum. Britain has also left the common market with its exit from the EU, partly to protect its internal market. The exit had unexpected negative effects on the country's population. The prices of certain products have risen or there has been a shortage of goods, there has been a shortage of labor in some sectors, and trade with the European Union has become more difficult and costly⁷.

⁶ Ibid.

⁷ *BBC.com* (2021) "How Serious Is the Shortage of Lorry Drivers?". Available [online]: <https://www.bbc.com/news/57810729>

⁵ Imre, L. (2003) "Verseny és területi fejlődés Térségek Versenyképessége Magyarországon", [in]: *JATEPress Szeged*.

2. **Although the regions are competing with each other, among others, because of climate change, they will sooner or later have to coordinate and work together along certain points.** Regardless of motivations and whether external or internal influences trigger regional development, the impact is either caused by multinational corporations or local communities. By companies – in order to gain market advantage in return. By local communities – to improve the living standards of the local population, creating jobs, halting negative migration/depopulation trends, or achieve independence from the global market economy. Global climate change is affecting areas and the people who live there, which everyone needs to take into account. An important aspect for companies is design capability. When planning, they must take into account local specific economic, legal and political cultural aspects, and the degree of market advantage, as well as the negative effects of climate change. This is no longer a negligible aspect, especially when it comes to a large investment that pays off in the long run and is difficult to move (such as setting up a factory). For local communities, this is important, especially if they are self-sufficient, because climate change is affecting, among other things, residential areas (the Netherlands is a good example, due to rising sea levels, without major investment, the territory becomes uninhabitable), and economy, such as local agriculture.

To sum up the findings, although regions and local communities compete with each other (either for external capital, or to protect the internal market from the external market), because of global climate change, they need to work together to rival with

each other. In order to work together, actors need to agree on points that may limit themselves or reduce their market advantage due to environmental change. Cooperation can also be mutually positive in some cases, for example when self-sufficient communities trade with each other to deal with the climate crisis, one providing knowledge and the other the raw material of the product. So, these measures should focus on combating climate change. The measures do not necessarily only harm local communities or companies. For communities, fighting climate change can also lead to the creation of new jobs, new businesses for companies, such as the recycling business, and technological advances can also mean spending cuts.



IN THE CASE OF SELF-SUFFICIENT COMMUNITIES, SELF-SUFFICIENCY CAN ONLY BE ACHIEVED IF THESE COMMUNITIES REMAIN COMPETITIVE WITH THE EXTERNAL MARKET

**THE UNITED NATIONS
INTERGOVERNMENTAL PANEL
ON CLIMATE CHANGE REPORT
AS A STARTING POINT FOR SHAPING
REGIONAL ECONOMIC POLICY
AND SELF-SUFFICIENT ECONOMIES**

The UN Intergovernmental Panel on Climate Change (IPCC) issued its sixth assessment report on climate change in August 2021⁸. The last time such a comprehensive study has been conducted was eight years earlier, and there was nothing surprising in the study about the scenarios for our future. Scientists are recording change in every climate system and we are experiencing these changes as a result of an increasingly extreme climate.

The key message of the report is that, although the changes are irreversible, their intensity can be mitigated by reducing CO₂ and other greenhouse gas emissions to significant and sustainable levels through various measures. Thanks to the transformation of industrial production, certain effects could be felt after a short time such as the reduction of air pollution, but it would take decades for the processes to stabilize⁹.

The recently published study is the first part of the 6th IPCC Assessment Report, which looks at the physical foundations of climate change. Recent research shows that if we do not reduce CO₂ emissions radically and drastically, the 2° C warming limit will soon become unattainable, with the result being that the signatory member states will not be able to meet the common targets

⁸ Intergovernmental Panel on Climate Change (2021) *Climate Change 2021: The Physical Science Basis*. Available [online]: https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_Full_Report.pdf

⁹ International Energy Agency (2021) "Global Energy Review", [in] *Global Energy Review*, flagship report, April. Available [online]: <https://www.iea.org/reports/global-energy-review-2021>

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THE KEY MESSAGE OF THE REPORT IS THAT, ALTHOUGH THE CHANGES ARE IRREVERSIBLE, THEIR INTENSITY CAN BE MITIGATED BY REDUCING CO₂ AND OTHER GREENHOUSE GAS EMISSIONS

set by the Paris Convention.¹⁰ If current trends continue, we will exceed this previously mentioned degree of warming within twenty years.

The study also highlights the fact that the local impact of climate change will be very different from region to region. On land, global warming will be higher than the global average, so there is still a risk of desertification in many residential areas. Moreover, in the Arctic, global warming will be more than double the average¹¹.

Based on the model estimates presented in the report, the cold seasons in all regions of the Earth will shorten while the warm

¹⁰ Ibid.

¹¹ Ibid.

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OCEAN AND TERRESTRIAL WARMING WILL HAVE A NEGATIVE IMPACT ON HUMAN NUTRITION, SO NOT ONLY CAN CERTAIN AREAS BECOME UNINHABITABLE, BUT FOOD PROBLEMS CAN ALSO ARISE FOR THE POPULATION

seasons will lengthen in the coming decades, and this will also affect our daily lives. According to IPCC experts, warming will significantly melt the hitherto permanently frozen soil on Earth, remove large areas of winter snow cover, ice fields and glaciers, and completely melt the Arctic Sea ice in summer. As a result, viruses not yet known to us could melt away, and more and more epidemics will weigh on humanity.

Furthermore, this process also exacerbates the negative effects of climate change.

Ocean and terrestrial warming will have a negative impact on human nutrition, so not only can certain areas become uninhabitable, but food problems can also arise for the population¹².

The report was prepared by more than two hundred scientists and adopted by 195 countries. The report highlights the need for action to avert a humanitarian and climate catastrophe. In order to really bring about change, a change of attitude must occur. As the study has pointed out, the negative effects of climate change are a cause for concern and will prompt immediate radical change for all of humanity. This action, however, will not achieve its goal without a radical change in our economic culture, society as a whole, and individual attitudes.

ERICH FROMM'S PROBLEM FORMULATION

It is worth dealing with the works of Erich Fromm because several of his thoughts are related to the topic of the study. He was a social psychologist humanist philosopher of the 20th century. Fromm believed in people and believed that any change in our world, our economy, our society, and our culture should start with people.

In *"To Have or to Be?"*, Fromm criticized, among other things, the globalist market economy based on incessant consumption. Basically, he believed that a kind of change of attitude was needed in order to improve the mental state of individuals and make society healthier. He was building on his previous work, he largely deals with this topic in his writing, as *"Escape from Freedom"* (1941) and *"Psychoanalysis and Religion"* (1950). Erich Fromm starts from the idea that the character structure of the average individual and the socio-economic

¹² Ibid.



THE GLOBAL MARKET ECONOMY MUST BE REPLACED BY AN ECONOMY OF SUSTAINABLE DEVELOPMENT

structure of the society around them interact in "To Have or to Be?".

Culture has a shaping power and has an impact on the individual and society. Thanks to the shaping force, certain social orders are consolidated, which stabilizes the social order. Under certain circumstances, these solidified elements can function as *explosives* in society¹³. In Fromm's opinion, a good example of this phenomenon is the social effects of the First World Economic Crisis on the global world. A result of which, a significant portion of the citizens of the West have lost a secure existence. In Europe, as a consequence of the crisis, the popularity of partisan extremist political parties increased, and (in part because of this) the Nazi party was able to gain power. The social crisis culminated in World War II.

According to Fromm, the relationship between social character¹⁴ and social structure is never static, as these two elements represent a never-ending process.

¹³ Fromm, E. (2013) *To Have or To Be?*, reprint edition, United Kingdom: Bloomsbury Academic.

¹⁴ A definition created by Erich Fromm, which means the result of the interaction of individual mental structure and socio-economic structure.

A change in either of the two factors results in a change in both¹⁵.

Many may think that the political and economic structure needs to be radically changed first, leading to a change in the mentality of individuals. Those people, however, ignore the fact that the new political elite has old character instincts and will seek to restore the old social order. A good example of this phenomenon is the political, social, and economic processes in Hungary. After the change of regime in 1989-1990, social processes began that saw Western-style *free*, democratic, and multi-party systems as examples.

THE HUNGARIAN EXAMPLE

By 2008, Hungarian society, politics and the economy had gone through a crisis, the result of which was that in 2010, the second government of Viktor Orbán, by a two-thirds majority, was empowered by voters to form a government. By 2021, FIDESZ had consolidated its power, built the System of National Cooperation with its own media empire, and, according to the Freedom House report, severely undermined democracy, freedom, and the rule of law in Hungary¹⁶.

Although for an outsider the situation of Hungarians may seem daunting, the Orbán System is more like *goulash communism* evoking the Kádár era rather than a hard dictatorship such as in the Middle East or the Far East. Even today, political scientists in Hungary are debating a lot about where Viktor Orbán's system could be classified, how can this system be defined or categorized? It, therefore, seems that Hungary is a so-called *hybrid regime* or electoral autocracy.

¹⁵ Fromm, E. (2013) *To Have or To Be?*, reprint edition, United Kingdom: Bloomsbury Academic.

¹⁶ Ibid.

This *mixed system* could also be called a *soft authoritarian system*, which means that it does not yet have the characteristics of a dictatorship but has already moved away from Western-type democracy and forms a new category based on its criteria¹⁷. This example is a good illustration of the fact that the Change of Regime alone did not result in a change of mentality in individuals and the political elite. FIDESZ, which came to power by an overwhelming majority in 2010, has continuously transformed political culture and political systems in such a way that the Republic of Hungary, close to Western-type liberal democracies, moved away from this political system and created a soft autocracy in Hungary. This system could in many ways remind people of the decades before the change of regime.

This takeover, or consolidation of the system, which can also be considered a victory, actually means the defeat of the elite. Staying with the example, FIDESZ took over the power in 1989-1990 and attempted to catch up with Western countries in all respects. The party abandoned this endeavor and began to build a different system, different from the Western one. Although FIDESZ has been winning the elections with an overwhelming majority since 2010, one cannot call them a winning party because they were unable to carry out their original goals and plans.

ANOTHER GROUP, AND FROMM'S POSITION

Fromm believed that the other extreme was represented by those who argue that the nature of man must be changed first, that is, his consciousness, values, charac-

¹⁷ See: Freedom House (2021) *Freedom in the World 2021*. Available [online]: <https://freedomhouse.org/country/hungary/freedom-world/2021>; Bozóki A. and D. Hegedűs (2017) "Hibridizáció", [in:] *Politikatudományi szemle*, Vol. 26 [in Hungarian]



WHILE IT IS TO BE WELCOMED THAT THE EU'S REGIONAL POLICY ALSO INCLUDES TARGETS FOR MITIGATING THE NEGATIVE EFFECTS OF CLIMATE CHANGE, THE EUROPEAN UNION DOES NOT PAY ENOUGH ATTENTION TO THESE TARGETS

ter, and only then can a social change be brought about. Referring to human history, he finds that such claims are false, and that purely psychological changes have always been limited to the private sphere or small groups, or that aspirations have been utterly ineffective if, in addition to voicing spiritual values, they have been the opposite¹⁸.

¹⁸ Fromm, E. (2013) *To Have or To Be?*, reprint edition, United Kingdom: Bloomsbury Academic.

According to Erich Fromm, the correct starting point for solving the problem is that a fundamental change in human character structure can save us from a psychological and economic crisis that results in a decline in the attitude of possession in favor of a life-centered approach to this, suffering society, and its members. We thus need to eliminate the root causes.

Furthermore, he believed that the creation of a *new man* could be facilitated by a *new society*, which was also his task. This new society, and new people in society may be able to solve the global problems facing humanity, such as the climate catastrophe. According to the philosopher, the new person must have the following traits:

• *Ability to give up all forms of possession for the sake of a full existence.*

• *A sense of security, a sense of identity and self-confidence based on believing in who we are, which also builds on the need for human relationships, interest in the outside world, love, solidarity with the outside world, rather than possession at all costs we would like and exercise control over the world and thereby become servants of our property*

• *Adoption of the fact that nothing and no one outside of us give meaning to our lives, but that this radical independence and of authenticity (no thingness) condition can be dedicated to the love and distribute posts fullest activity.*

• *Ability to be fully present where we are.*

• *To find joy in giving and sharing what I have, rather than accumulating and exploiting others.*

• *Love and humility for all manifestations of life and the awareness that neither things,*

nor power, nor the dead are sacred, but only life and all that promotes its growth.

• *Strive to reduce our greed, hatred, and illusions as much as we can.*

• *Be able to live a life without worshiping idols and having no illusions because we have reached a level of development at which man no longer needs illusions.*

• *Strive to develop our ability to love and the ability to think critically and without emotion.*

• *Overcome our own narcissism and accept the tragic limitations of human existence.*

• *To be aware that the highest goal of human life is the full development of one's own and fellow human beings.*

• *Know that discipline and recognition of reality are needed to achieve this goal.*

• *To know that only growth within the system is healthy, and to know the difference between "system" as an attribute of life and "order" as an attribute of lifelessness, the dead.*

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• *Developing our imagination, not only to escape intolerable things, but to anticipate real opportunities, which is to eliminate intolerable circumstances.*

• *Others should not be deceived, but we should not be left to fend for ourselves, we can be innocent, but by no means naive.*

• *We need to know ourselves, but not only the conscious but also the unconscious self - the knowledge of this is dormant in all of us.*

• *To feel one with all living things and thus give up the goal of conquering, subjugating, exploiting, raping and destroying nature, instead trying to understand it and cooperate with it.*

• *To know that freedom is not arbitrariness, but a chance to be ourselves - not as a set of unbridled desires, but as a delicately*

balanced system that faces the alternative of growth or decline, life or death at all times.

• *Know that evil and destruction are necessary consequences of unrealized growth.*

• *To know that there are few people who have attained perfection in all these qualities and, moreover, do not desire to "achieve a goal," recognizing that such an ambition is only another form of greed and possession.*

• *To be happy in the process of incessantly growing vitality, whatever the farthest point that fate allows us to live, because if our lives are as full as possible, it is so satisfying that there is no worry about what is and what is not we could achieve.”¹⁹*

It has already been mentioned that society and the individuals within it are connected to each other, and in order for society to facilitate the creation of *new people* and for change to take place, we need to build a new society. According to Fromm, coming to awareness as the first task to attempt to create such a society is difficult. These difficulties were identified by *To Have or To Be?* in writing:

• *The question of how to maintain the industrial mode of production without ending with total centralization, that is, the already known fascism, and, even more likely, technocratic "smiling fascism", must be resolved.*

• *Planning in a macroeconomic framework, abandoning a completely fictional "free market economy", should be combined with widespread decentralization.*

¹⁹ Ibid.

- *The goal of unlimited economic growth should be abandoned or replaced by selective growth to avoid a possible economic catastrophe.*

- *It would be necessary to create suitable working conditions and a completely different attitude to work, so that it is no longer stimulated by material gain but by other, spiritual pleasures.*

- *At the same time as supporting scientific progress, the requirement that human application should not endanger human existence should be met.*

- *The conditions should be created for man to experience prosperity and joy, which would allow him not to seek the maximum of pleasures.*

- *It is necessary to create security of existence, avoiding dependence on bureaucracy.*

- *The possibility of "individual initiative" should be shifted from the economy to other areas of life."²⁰*

Erich Fromm believed that the creation of a new society was possible, and one of the conditions was that the branches of the social sciences that deal with the creation of a *new society* should also take precedence over the natural sciences²¹.

Change is, therefore, possible, but as a first step, it is necessary to create a new philosophy trend that can be used in practical life and can offer a real solution to humanity's current problems, namely the global climate crisis, inequality and over-interdependence in the economy.

²⁰ Ibid.

²¹ Ibid.



GREATER SUPPORT FOR EDUCATION AND RESEARCH AND DEVELOPMENT IS ESSENTIAL TO REPLACE A CULTURE BASED ON ECONOMIC CONSUMPTION WITH A SUSTAINABLE ECONOMIC CULTURE

MUCH NEEDED CHANGE OF MENTALITY RECOMMENDATIONS

The SARS-CoV-2 pandemic has made humanity aware of how fragile the global market economy is. Among other things, a good example is the ocean trade and transport of goods, which has become difficult due to restrictive measures. Thus, the global market economy must be replaced by an economy of sustainable development.

This shift can only come about if local communities come together and try to achieve a change in economic culture locally, at the regional level. Switching will not only make humanity less vulnerable to a potential global pandemic, but will also mean that emissions, in general, will be

radically reduced by significantly shortening supply chains. This change can only be achieved if governments and companies are involved and work together to develop a sustainable model with the involvement of experts.

The European Union, in a spirit of solidarity, supports local communities. Grants are targeted at all regions and cities in the EU. These grants are intended to promote economic growth, job creation, and a better quality of life through investment. The latter includes support for renewable resources and sustainable development. Regional strategies give priority to, among others, saving the seas²², preserving environmental and cultural heritage²³, curbing forest fires²⁴ and promoting sustainable development²⁵. While it is to be welcomed that the EU's regional policy also includes targets for mitigating the negative effects of climate change, the European Union does not pay enough attention to these targets. As climate change, in the absence of action, will have a significant negative impact on the lives of EU citizens in the near future, and by extension on our daily lives, it would be worthwhile developing separate regional strategies to tackle the problem and prioritize it at a regional level. Furthermore, achieving the targets set in the 2020 climate change and energy package (the so-called "20-20-20" targets) is

²² Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on an EU Strategy for the Baltic Sea Region. See: COM (2009) 248 final, June 10.

²³ Communication from the Commission COM (2015) 366 final – *Towards a More Prosperous Alps*.

²⁴ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on a European Union Strategy for the Adriatic and Ionian Region. See: COM (2014) 357 final, June 17.

²⁵ Joint Communication JOIN (2016) 21 final – *An Integrated Policy for the Arctic in the European Union*.



FOR LOCALIZATION PROCESSES TO BE TRULY SUCCESSFUL GLOBALLY OR IN CERTAIN AREAS, CLIMATE CHANGE MUST NOT BE IGNORED

not enough to mitigate the effects of global climate change²⁶. In this way, it would be useful to set higher goals for the European community, which is definitely worth supporting as a matter of priority.

The European Union is also addressing the problem at regional level, but the problem can only be interpreted globally. For example, as a result of global warming, not only will the average sea temperature rise, but due to the melting of Arctic ice, sea levels will rise. If the EU were to better support self-sufficient economies and regional independence, it could reduce Member States' vulnerability to the climate crisis. A good example of this is the Netherlands or the Baltic countries. These countries are seriously threatened by rising sea levels, which could make their territory uninhabitable. Not only will territories become

²⁶ Directive 2009/28 / EC of the European Parliament and of the Council of April 23, 2009, on the promotion of the use of energy from renewable sources and amending and repealing Directives 2001/77 / EC and 2003/30 / EC.

uninhabitable, but these processes will, among others, affect sea currents, including the entire Earth.

According to the 2021 report by the International Energy Agency (IEA), the energy boom following the COVID-19 pandemic is producing the second largest annual increase in CO2 emissions ever recorded. The publication highlights that a significant portion of the growing greenhouse gas emissions is not produced by developed countries, but by developing countries and China²⁷.

These examples also illustrate that it is worth addressing this issue globally. Of course, this does not mean that regional action is in vain, but on the contrary. Only regional action can solve the problem and reduce CO2 emissions – such an approach makes sense, but it can achieve real results if it is done in a coordinated manner, taking into account a global natural change.

The IEA report also draws our attention to the fact that the transition has significant potential for economic growth as well. Through investment, and the operation of new systems, new jobs are created. This remark is particularly conducive to the European Union's regional policy efforts to develop the economy and create jobs²⁸.

Changing our consumption patterns is also essential to mitigating the effects of climate change. Here, first and foremost, consumer behavior change is what can promote change. Sustainable development, as a shift in economic culture, is threatened by excessive consumption. On the one hand, by changing attitudes, companies are forced by consumers to change their

²⁷ <https://www.iea.org/reports/global-energy-review-2021>

²⁸ Ibid.

business policies. On the other hand, by reducing consumption, emissions can be significantly reduced. Conscious consumer behavior, with individuals consuming goods according to their needs, is essential to curbing climate change. This mentality helps to change consumer behavior, and it can be encouraged through various educational programs and recommendations.

Promoting information is essential for the average citizen to understand the problem and to take active action to achieve common goals. Creating full-fledged objective orientation may not be limited to a particular area, so this endeavor requires more decisive action against the so-called fake news and misinformation. Some minor steps have so far been taken in this regard,

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but this issue calls for stronger action on social networks for success²⁹.

Greater support for education and research and development is essential to replace a culture based on economic consumption with a sustainable economic culture. Here, too, a change of approach is needed, and a smaller percentage of the technological advances created by science should be put at the service of consumption. We should prioritize the scientific areas that serve to mitigate climate change. Developing and supporting education, in addition to increasing the level of general education among people, promotes social mobility and reduces the social gap.

²⁹ <https://www.europarl.europa.eu/news/hu/headlines/eu-affairs/20170331STO69330/video-harc-a-felreta-jekoztat-as-az-alhitek-ellen-a-kozossegi-oldalakon>

Reducing the gap between poorer and richer countries is crucial in the long term to truly address the negative effects of human-induced climate change. This can be achieved if richer countries support the development of poorer countries. In this case, development must take place in a sustainable way in which the countries ensure that development takes place without significant CO2 emissions and that it does not result in additional emissions. Instead, development must lead to the above-mentioned reduction of greenhouse gases.

FINAL REMARKS

To sum up, I am fundamentally skeptical that a regional approach based on self-sufficient economies will be implemented globally in practice in the near future. Although globalization facilitates this process, we can only see the progress of regionalization in more developed, richer countries. However, the trends for regionalization or the self-sufficient economy may, at one point, come to the fore in some areas of the EU economy.

For localization processes to be truly successful globally or in certain areas, climate change must not be ignored. There clearly exists a significant connection between economies operating in different areas, which involuntarily influence each other by emitting greenhouse gases. Regionalization based on essentially self-sufficient economies can only be discussed in conjunction with global climate change, as the problem is global.

In order for humanity to truly be able to deal with this problem, we need a kind of economic-cultural change, which can be based on a change of attitude. Needless to say, there already are efforts to mitigate the negative effects of climate change. However, this means, first and foremost, formal cooperation between countries (think, for

example, the Paris Climate Agreement). Some countries (such as the Netherlands or Germany) are making more serious efforts to mitigate the problem and achieve the goals they have set, while other countries (such as China or India) are making less of an effort to address the global problem. Countries that are the largest emitters of carbon dioxide (such as China, the US, or India) should radically reduce emissions in order to mitigate climate change.

A change of attitude would be of great importance for regional policies and for self-sufficient communities, as global climate change has a local impact. There already are countless examples of this phenomenon. Including an unusual climatic event in July 2021, i.e. snowfalls in southern Brazil³⁰, or the "Dél-Alföldi Régió" in Hungary- a country which is beginning to desertify³¹. Another example is the situation in Madagascar. The island country has not had enough rain for four years, and tens of thousands of people are starving because they do not have access to basic foodstuffs

³⁰ <https://www.reuters.com/business/environment/seeing-snow-first-time-62-brazilians-revel-icy-snap-2021-07-30/>

³¹ Part of this region is called "Homokhátság". This territory is not a densely populated territory, the people living there are mainly engaged in agriculture and grow fruit on small farms. These small farms supplied the territory with cheap, fresh and good quality fruit and vegetables. Due to climate change, the area is suffering from drought and is threatened by desertification. Farmers are unable to irrigate their farms as a result of radical negative groundwater levels, so they are forced to give up their activities or switch to livestock farming. This process also reduces the self-sufficiency of the territory, as change has an impact on crop yields and thus on the nutrition of the population. Another example is the situation in Madagascar. Madagascar has not had enough rain for four years, and tens of thousands of people are starving because they do not have access to basic foodstuffs due to extreme drought. This process also reduces the self-sufficiency of the area, as change has an impact on crop yields and thus on the nutrition of the population. See: *Baon.hu* (2019) "Vízviszartartással mentenek meg a Homokhátságot". Available [online]: <https://www.baon.hu/kozelet/helyi-kozelet/vizviszartartással-mentenek-meg-a-homokhatsagot-1876435/> [in Hungarian]

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THEMSELVES

due to extreme drought³². This process also reduces the self-sufficiency of the area, as change has an impact on crop yields and thus on the nutrition of the population. According to the United Nations, Madagascar may be the first country whose inhabitants

³² According to the IPCC report, water scarcity periods in Madagascar have increased in recent years and are expected to increase as climate change progresses. Although the situation in Madagascar is shocking and tragic, but not hopeless. Chris Funk believes the short-term solution to the problem could be to make water management more efficient by Malagasy authorities. After all, we are already able to predict often if more than average rainfall can be expected, and so farmers can increase their yields with the help of technology and information. See: *Qubit.hu* (2021) "Madagaszkáron Már Sáskákat és Kaktuszleveleket Esznek, hogy Túléljék a Klímaváltozás Okozta Éhínséget", August 25. Available [online]: <https://qubit.hu/2021/08/25/madagaszkaron-mar-saskakat-es-kaktuszlevelet-esznek-hogy-tuleljek-a-klimavaltozas-okozta-ehinseget> [in Hungarian]

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LOCAL
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experience hunger directly caused by climate change, so that this country, compared to developed countries, has no significant greenhouse gas emissions³³.

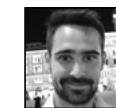
These examples show that global climate change is very much able to have a local impact to an extent that also has a significant impact on the daily lives of local people. This also means that some regions, or self-sufficient economies, may be affected to such a measure that they not only lead to a competitive disadvantage in these areas, but also to a reduction in the living standards of the population.

Nevertheless, Chris Funk, a climate researcher at the University of California, Santa Barbara, also drew our attention to the fact that there is some solution to the problem that, even though it may not solve the global problem, it is able to mitigate the negative effects of climate change locally.

³³ Ibid.

One important element of the *fight against climate change* is for local communities to find solutions to the environmental problems that affect them by working to make the area carbon neutral while solving the problem. To radically reduce carbon emissions locally, it is necessary for governments to take climate change more seriously and adhere to the goals they set themselves, to help each other. Meanwhile, different communities must act together against climate change.

Local communities should strive to make the area they live carbon-neutral regardless of which region they live in. They should also support other regions in order to preserve their habitat. This requires a high degree of cooperation between the regions. As such, the horizontal arena needs to be strengthened in order for this wide-reaching cooperation to truly work.



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PÉTER
KERÉKES

A graduate lawyer and a political science student at the University of Szeged. He has formerly worked at the Law Office, the Republikon Institute in Budapest, and for a political party. His main areas of interest include politics and social sciences



When Following Your Own Path Goes Wrong: LatAm, Dependency, and the Anti-Trade Mentality



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FEDERICO N.
FERNÁNDEZ



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FRANCO MARTÍN
LÓPEZ

Europe and Latin America have a complex trajectory in terms of their integration processes, with dissimilar elements and other common ones as well. In Latin America, the ideas of protectionism and state interventionism have had a strong impact on the shaping of structures. These ideas truncated the economic growth of countries like Argentina. The sustained impact of protectionism over decades should serve as an experience for the CEEs to promote economic opening and trade agreements of regional blocs.

Three milestones mark the road of Argentina and Latin America (LatAm) to protectionism and fear of commerce. In a chronological order, these are:

1. the 1929 crisis, which fueled the so-called *Import Substitution Industrialization* in the region;
2. World War II, which drove LatAm to develop an economy able to satisfy (in part) the demand of the old continent, but it also meant a tendency towards autarky and protectionism that found in the state its lever for development;
3. the "Dependency Theory" and the anti-trade agenda set by the United Nations' (UN) CEPAL (Economic Commission for Latin America and the Caribbean) in the 1950s¹.

Argentina and the rest of Latin America followed the CEPAL guidelines to the letter – which under the inspiration of the Argentine Raúl Prebisch used protection to defend *infant* industries that reached senility without ever reaching competitive

¹ Soto, Á. (2016) "CEPAL y la búsqueda del camino propio", [in]: *El Cato*. Available [online]: <https://www.elcato.org/cepal-y-la-busqueda-del-camino-propio> [in Spanish]

maturity. Prebisch argued that the price of commodities (raw materials), the main exports of the area at the time, suffered a permanent deterioration compared to the prices of industrialized products, so that the only way out of backwardness was through industrialization forced by governments with obstacles to imports.

The results of the nefarious influence of Prebisch's and CEPAL's ideas led to planned economies across the region, thus making international commerce *suspicious* while strengthening the belief that the state should reactivate the economy through increased public spending financed by higher taxes, debt, and monetary printing. These three building blocks of the Latin-American protectionist mentality shall thus be examined with special emphasis on the impact of Prebisch and CEPAL.

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THE ONLY WAY
OUT OF BACK-
WARDNESS WAS
THROUGH
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FORCED
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WITH OBSTACLES
TO IMPORTS

ARGENTINA AT THE FOREFRONT OF LATIN AMERICA'S PROTECTIONIST MENTALITY

The Latin American protectionist mentality was conditioned by its development in Argentina and Brazil. Of these two, the first country was particularly relevant considering the influence of who would become the most prominent school's intellectual: Raul Prebisch. Three clear periods divide Prebisch's fate in Argentina and Latin America.

IMPORT SUBSTITUTION INDUSTRIALIZATION AFTER THE 1929 CRISIS

The First World War and the 1929 crisis produced a strong contraction of commerce in Latin-American countries. For example, Argentina's exports fell by 40%, whereas overall production decreased by 20%. This economic contraction not only impacted the general economy, but also hit the state's finances mostly dependent on import and export duty taxes, fueling social unrest and political instability that ended in several coups². The social disruption was exemplified by the 1930s military coup in Argentina that ruled until 1943, implementing several protectionist and interventionist measures, among which, foreign trade controls were specially considered, imposing high import taxes and local industries subsidies.

Between 1933 and 1937, the national Action Plan would regulate almost every aspect of the country's economy. During this period, Raul Prebisch started working in the government for Federico Pinedo, the Finance Minister of the military regime, being then promoted as manager of the recently created Central Bank in 1935, occupying the position until 1943. In 1940, the Pinedo

² Prebisch, R. (1949) *The Economic Development of Latin America and Its Principal Problems*, United Nations.

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THE MILITARY COUP OF 1943 IMPOSED A POLITICAL SHIFT TOWARDS A DIFFERENT, MORE VIOLENT FORM OF STATE INTERVENTIONISM THAT WOULD DERIVE INTO THE AUTHORITARIAN REGIME OF GENERAL PERON'S

Plan, which he contributed to develop, was launched in order to promote industrial manufacturing and commerce integration with Brazil³.

Prebisch was an accountant that worked as professor in Political Economy in Buenos Aires University from 1923 until 1948. Around these years, he formed his thoughts and ideas in the protectionist

³ Sztulwark, S. (2003) *El estructuralismo latinoamericano. Fundamentos y transformaciones del pensamiento económico de la periferia*, Buenos Aires: Prometeo Libros.

field as a local expression of the Keynesian ideological framework that justified state's broad intervention in the economy, but with a special twist – adding the need of trade barriers for industrial development as a strategy for local economic long-term growth.

AUTARKY AND PROTECTIONISM IN LATIN AMERICA DURING THE SECOND POST-WAR PERIOD

The military coup of 1943 imposed a political shift towards a different, more violent form of state interventionism that would derive into the authoritarian regime of general Peron's government between 1945 and 1955. Prebisch's support disappeared, forcing him out of the Central Bank in 1943 and out of the university in 1948.

In 1948, he entered the Economic Commission for Latin America and the Caribbean (ECLAC), an organization created by the United Nations, working as Executive Secretary between 1950 and 1963, becoming then Secretary-General of the United Nations Conference on Trade and Development (UNCTAD) from 1964 to 1969. Here, he would expand his ideas along Latin America as an alternative to the United States/USSR dichotomy and in accordance with the Non-Aligned Countries movement developed later in 1955 after the Afro-Asiatic conference. 1949 is thought as the year in which the structuralist school led by Prebisch was born, considering the publishing in that year of the text *Latin America's Economic Development and Some of Its Main Problems*, written by Prebisch for the ECLAC, as the cornerstone of the school.

The main ideas behind this line of economic thought was that Latin America had a structural problem related to its position in the world economic stage as an agricultural producer, dependent on foreign

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DURING THE WAR, MOST INDUSTRIAL TRADE GROUND TO A HALT OR WAS REDIRECTED INTO THE ARMED CONFLICT, LEAVING WAR-EXCLUDED COUNTRIES THE OPPORTUNITY TO DEVELOP A LOCAL INDUSTRY WITHOUT COMPETITIVE INTERNATIONAL PRESSURE

manufactured goods⁴. The writings by Prebisch explained that there was a center-periphery international conditioning that mediated economic relations between states, leading to a dependency of underdeveloped countries. The rational was that cyclical crisis related to a deficit in trade were generated by a tendency of

⁴ Sztulwark, S. (2003) *El estructuralismo latinoamericano. Fundamentos y transformaciones del pensamiento económico de la periferia*, Buenos Aires: Prometeo Libros.

imports (mostly of the industrial kind) in less industrialized countries to exceed the value of its agricultural dominated exports. This process was, in theory, the result of the propensity manufactured goods to increase its value more strongly through technological improvements⁵.

World War II and the post-war period offered an excellent scenario for these ideas. During the war, most industrial trade ground to a halt or was redirected into the armed conflict, leaving war-excluded countries the opportunity to develop a local industry without competitive international pressure. In parallel, Europe and the United States presented a high demand for agricultural goods. This lasted until these countries were able to reinstate normal production and demand levels, reducing agricultural demand, and returning their industries to the international market. The economic boom in Argentina was used by the Peronist government to develop a subsidiary political system that crashed around the mid-1950s, when the external favorable conditions slowly stopped.

The state opted to use money printing and debt as a financial mechanism that eventually led to inflation and poverty, which – combined with social unrest from the opposing sectors, – permitted a coup in 1955⁶. With the new military regime, Prebisch then wrote the report known as Prebisch Plan, a diagnosis and action plan produced for the military government during his stay in Santiago de Chile, initiated in 1950 and extended until his brief return in 1984. The plan was highly criticized by the

⁵ Lillo, J.F. (2015) *La Escuela Estructuralista Latinoamericana*, Facultad de Ciencias Económicas Universidad Nacional de Cuyo.

⁶ Soto, Á. (2016) "CEPAL y la búsqueda del camino propio", [in]: *El Cato*. Available [online]: <https://www.elcato.org/cepal-y-la-busqueda-del-camino-propio> [in Spanish]

left and Peronist leaders who were at the time in the outlawed opposition.

THE INFLUENCE OF THE STRUCTURALIST SCHOOL AND ITS INTERNAL DEBATES

Even though the Prebisch's ideal reached a high level of acceptance in Latin America through the influence of CEPAL, the theory was not without critics. Beyond the broad classical liberal resistance to its interventionist approach, orthodox Marxists also opposed his mix-economy view that re-

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THE APPROACH BECAME MAINSTREAM IN LATIN-AMERICAN INTELLECTUAL GROUPS AND WAS TERMED DEVELOPMENTALISM

served a place for private enterprise in the economic structure that was to be guided by the state. This skepticism prompted Prebisch to devote at the end of the 1950s more attention to inflation, social inequality, and foreign interference as well as agricultural land reform.

In the 1960s, he left ECLAC, producing a great crisis inside the institution. During this whole period, the core idea in the structuralist school he led, was that socio-economic development was to be attained in poorer countries through an inside-directed growth focused in the internal market, and industrialization by imports substitution fomented by a protectionist and interventionist state policy⁷. The theoretical framework was first sketched by Hans Singer in his work for the United Nations⁸ and then used by Prebisch on the Economic

⁷ Lillo, J.F. (2015) *La Escuela Estructuralista Latinoamericana*, Facultad de Ciencias Económicas Universidad Nacional de Cuyo.

⁸ Singer, H. (1949) *Post-War Price Relations Between Under-Developed and Industrialized Countries*, Economic and Social Council, United Nations.

Survey of Latin America presented in 1950 for ECLAC.

What was then to be known as the Prebisch-Singer thesis, explained a process of trade terms cyclical deterioration linked to the fall of agricultural goods value in comparison to manufactured products as a result of industrial technological innovation and its added value (thus producing trade deficits and imbalances in a country's economy). The approach became mainstream in Latin-American intellectual groups and was termed *developmentalism*.

In order to summarize the key aspects of the Theory of the "Deterioration of the Terms of Trade", let us delve into it more deeply with the aid of Agustín Etchebarne's essay *Terms of Trade and Technological Change*. It defines the terms of trade as the relationship between the prices of imports and exports between two or more countries.

When Prebisch-Singer speak of the "Deterioration of the Terms of Trade", they refer to the negative variation in the ratio between the prices of exports of less developed countries (*peripheral* in Prebisch's terminology) with respect to those of developed (or *central*) countries. In other words, they believed that the prices of natural resources, or raw materials, which made up the bulk of the sales of the *peripheral* countries, tend to fall more rapidly than the prices of industrialized goods exported by the *central* countries. According to these authors, they either rise or fall more slowly. In saying this, they relied on empirical research carried out by the UN's Department of Economic and Social Affairs which seemed to corroborate this trend⁹.

⁹ Prebisch, R. (1949) *The Economic Development of Latin America and Its Principal Problems*, United Nations.



THE PRICES OF NATURAL RESOURCES, OR RAW MATERIALS, WHICH MADE UP THE BULK OF THE SALES OF THE PERIPHERAL COUNTRIES, TEND TO FALL MORE RAPIDLY THAN THE PRICES OF INDUSTRIALIZED GOODS EXPORTED BY THE CENTRAL COUNTRIES

Prebisch argued that the problem of the underdeveloped (*peripheral*) countries was not that they were lagging behind the developed countries, but that there was a structural problem that prevented them from developing. There would also be an additional issue due to the international trade cycle, given that the *peripheral* countries would be less resistant to recessions, which would also explain their tendency to generate large balances of payment deficits and their consequent recurrent crises. Prebisch argues that in contrast to

the productive structure of the periphery, which is specialized and heterogeneous, that of the centers is diversified and homogeneous. Diversified, because it produces different types of goods and services, and homogeneous because it has practically no informal sectors.

From there comes the formerly called "Dependency Theory", according to which central countries exploit the *peripheral* ones. The authors propose for countries to develop a change in their productive structure through *import substitution*: establishing taxes on agricultural exports (withholding taxes), while protecting industry with high customs tariffs and encouraging infant industries with subsidies, tax breaks, "Buy National" laws, etc. All this requires a combination of free markets and government intervention. Later, Prebisch expanded the idea of *import substitution* with that of *export promotion* (industrial), following the success of Southeast Asian countries¹⁰. It is important to note that many of these ideas resemble Lenin's and Rosa Luxemburg's theories of capitalist imperialism, and were also heavily influential in intellectuals from other regions (among others, Africa).

In 1969, *Dependence and Development and Latin America* by the Brazilian Fernando Henrique Cardoso and the Chilean Enzo Faletto, introducing Marxist sociological perspectives supporting views of economic oppression as structuring forces of the international division of labor. The Theory of Dependence tried to explain that industrialization would not bring the consequences expected by the developmentalist or nationalist ideologues. Their arguments were that the process was conditioned by foreign investment, perpetuating the

¹⁰ Sztulwark, S. (2003) *El estructuralismo latinoamericano. Fundamentos y transformaciones del pensamiento económico de la periferia*, Buenos Aires: Prometeo Libros.

international dependence, and that industrialization replicated concentrated, capitalist, and oppressive social structures inside each country to the detriment of the labor class and favoring skilled managerial positions instead of the workers. It also stated that imported technology displaced laborers from the market.

More extreme Marxist positions would arise around these basic ideas regarding economic oppression¹¹. The central concept of technological dependence that instituted asymmetric relations between the center and the periphery of the international commerce system in favor of developed countries was only to be avoided by strong state action that appropriated and led the technical and economical process¹².

This internal debate was then propagated by institutions related to ECLAC – like the Latin American Faculty of Social Sciences created in 1957 and the 1967 Latin American Council of Social Sciences, both under the United Nations Educational, Scientific, and Cultural Organization. These organizations would promote the discourse and fund the professionals that developed the structuralist school in the subcontinent. In parallel, the Alliance for Progress initiated by U.S. President John F. Kennedy in 1961, aimed to establish economic cooperation between the U.S. and Latin America after the Cuban revolution, was also promoting structuralist ideas, especially developmentalist ones, until its disbandment in 1973.

¹¹ Zeolla, N.H. and J.M. Telechea (2014) *El pensamiento económico latinoamericano del desarrollo y la industrialización: estructuralistas y neoestructuralistas ¿Giro o actualización?*, Centro Cultural de la Cooperación Floreal Gorini, 21st Edition. Available [online]: <https://www.centrocultural.coop/revista/21/el-pensamiento-economico-latinoamericano-del-desarrollo-y-la-industrializacion> [in Spanish]

¹² Etchebarne, A. (2008) "Los términos de intercambio y el cambio tecnológico", [in]: *Revista de Instituciones, Ideas y Mercados*, Vol. 48.



PREBISCH ARGUED THAT THE PROBLEM OF THE UNDERDEVELOPED (*PERIPHERAL*) COUNTRIES WAS NOT THAT THEY WERE LAGGING BEHIND THE DEVELOPED COUNTRIES, BUT THERE WAS A STRUCTURAL PROBLEM THAT PREVENTED THEM FROM DEVELOPING

Back in Argentina, with the Peronist Party outlawed, the historic Unión Cívica Radical party governed from 1958 to 1962 under the Frondizi presidency. Aided by Rogelio Frigerio, he implemented a developmentalist policy in Argentina until they were ousted by yet another military coup. The interventionist economic policy would not change much, presenting a brief re-apparition of Pinedo in the military government as Economy Minister. With the return of the Unión Cívica Radical party to power from 1963 to 1966, developmentalist policies

continued with the military regime that followed until 1973, when the Peronist political movement returned.

The last military dictatorship that removed the Peronist government in 1976 diverged from the previous policies by implementing contractionary measures to intervene and free the economy without much result. The strong statist approach started in 1930 remained mostly undistorted, even after the definitive return of democracy in 1983.

LIVING WITH WHAT IS OURS: THE CONSTANT RETURN OF ECONOMIC NATIONALISM IN THE ARGENTINE POLITICAL DISCOURSE

During the 1970s and the beginning of the 1980s, Latin-American countries experienced a strong debt and inflation crisis with slow or negative growth, with large portions of their population living in poverty¹³. This forced a review in structuralist ideas like the one presented in his 1990 book *Productive Transformation with Equality* by Fernando Fajnzylber, proposing greater trade liberalization and lower monetary interventions in order to attain a more durable industrial development under competitive forces instead of forced opportunities reached with artificially low currency exchange rates and closed markets.

These ideas were then termed *neo-structuralism* and reigned the school until 1998, when authors like José Antonio Ocampo started the current theoretical framework¹⁴. The entire transformation was pushed by

¹³ Nicolini, J.P. (2011) "Mitos Argentinos sobre la Industrialización", [in]: *Foco económico: un blog latinoamericano de economía y política*. Available [online]: <https://focoeconomico.org/2011/10/10/mitos-argentinos-sobre-la-industrializacion/> [in Spanish]

¹⁴ Ocampo, J.A. and M.A. Parra (2003) "Los términos de intercambio de los productos básicos en el siglo XX", [in]: *CEPAL Review*, Vol 79.

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THE THEORY
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the strong critics in the classical liberal and Marxist ideologies that pointed to the lack of results shown by the developmentalist policies after decades of implementation.

Some explained that by 1970, Brazil was even more unequal than before the structuralist policies were put in place. Two big branches were born – one that stuck closer to the origins, as previously described, demanding a more truthful technological and competitive economy, and another one that broke its ties and stated that there was no successful alternative for a reform inside the variations of a mixed economy. The intellectuals like Osvaldo Sunkel, who stuck with Fajnzylber's perspective, understood that the key aspect of industrialization was the capacity of the economic environment to allow for entrepreneurial innovation. It

was fundamental for this innovation to be capable of sustaining technological transformations that ultimately permit international competition and survival for attaining global integration¹⁵.

The critical process was also fomented by a theoretical crisis that originated in the lack of explanatory capacity of the framework against the evidence from the economic process developed since the 1970s until present day. But before analyzing these problems, for which we will dedicate the next section, we could review what was happening in Argentina during these years. With the return to power of the Unión Cívica Radical under the democratic government of Raúl Alfonsín in 1983, many developmentalist ideas found ground again.

Prebisch traveled back to the country in 1984 to advise the newly elected government for a year, passing away in 1986 in Chile. The figure that was going to lead the policies was Aldo Ferrer, who wrote in 1983 the book titled *Living with What Is Ours*, a revival of developmentalist and protectionist ideas. Ferrer, a Unión Cívica Radical's affiliate and founding member of the Latin American Social Science Council, had served as the Minister of Economy of Argentina from 1970 to 1971 under the military government of president Levingston, and was a main influence for the Alfonsín government.

The failure of the policies aimed at solving the crisis using subsidies funded by state loans and money printing ended in hyperinflation and an early call to election in

¹⁵ Zeolla, N.H. and J.M. Telechea (2014) *El pensamiento económico latinoamericano del desarrollo y la industrialización: estructuralistas y neoestructuralistas ¿Giro o actualización?*, Centro Cultural de la Cooperación Floreal Gorini, 21st Edition. Available [online]: <https://www.centrocultural.coop/revista/21/el-pensamiento-economico-latinoamericano-del-desarrollo-y-la-industrializacion> [in Spanish]

1989, in order to hand the power to a Peronist government under Carlos Menem. President Menem, who won promising left-leaning policies, drifted for almost two years until he decided to reform his course and introduce a large package of reforms that involved privatizations, deregulations, and a moderate opening of the economy. The context of the fall of the Berlin wall and the dissolution of the Soviet Union helped create the ideological environment needed to support the policies, promoting economic growth and recovering from the crisis.

By the mid-1990s, Menem started dismantling some of his policies in order to instate a populist system, continuing an artificially fixed exchange rate between the peso and the dollar and fueling an economic

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situation with high unemployment and poverty levels that fomented a return for the Unión Cívica Radical until 2001, when the situation exploded in a crisis that forced five presidents to renounce in less than two weeks and ended with a two-year austerity government under a Peronist president.

In 2003, Kirchner, a newly elected Peronist president started a period of three consecutive terms alternated with his wife. Kirchners' governments were aided by a strong increase in agricultural export goods produced by Argentina and permitted large subsidiary and populist policies until 2015. The post-2001-crisis era was marked by a revival of developmentalist ideas that found in Kirchners' rule large support. After a short interruption during the 1990s, interventionist and protectionist policies were again put in place, when the state was able to support them with funds from taxes to agricultural exports that were feeding Asian markets.

In 2008, Aldo Ferrer reviewed and re-published his 1983 book; minor contributions – like Marcelo Gullo's *Insubordinate Foundation* – also saw the light. Many former

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THE DISCOURSE
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Unión Cívica Radical politicians and intellectuals, as well as many other left-leaning ones, integrated the Peronist coalition in power and occupied many government and university positions. The Kirchners' policies were a clear example of developmentalist ideas, ranging from high import taxes and restrictions, increasing regulation, high general taxes, social and corporate subsidies, and high export taxes for agricultural goods. By 2015, the internalization of these ideas into the political scheme was so broad that the two main electoral coalitions (the Peronist-Kirchnerist alliance and the Liberal-Unión Cívica Radical) presented similar platforms, diverging more in judiciary and corruption case positions, as well as geopolitical alignments, than in economic proposals.

The discourse in Argentina remains strongly attached to the myths of structuralism. Even after almost a century of protectionist policies, high agricultural export taxes, import restrictions and duties, those are presented as the solutions for economic growth. Meanwhile, a lack of trade barriers is still used as an excuse for greater industrial development.

PROTECTIONISM VERSUS FREE TRADE

By the 21st century, most mainstream economists maintain that the phenomenon of deterioration of the terms of trade is a topic that has lost its relevance. This is due to the fact that, in recent years, there has been substantial improvement in these prices in favor of the emerging countries as a result of the joint movement of rising prices of primary products. The process ran at the pace of the demand for mineral and agricultural goods in Asia. In parallel, falling prices of manufactured products appeared as the result of the accelerated industrialization process in which Asian countries have been involved. In the context of the 2008 international crisis, prices

had suffered a sudden and substantial drop, but they have since recovered¹⁶.

The fact that, since the 1970s, there has been evidence against the core idea behind the protectionist viewpoint was crucial to erode its reputations and explanatory power. Although the oil crisis that raised this commodity price was artificially generated by the OPEC cartel, former price increases in commodities, especially after the beginning of the new century, confirmed that the theory was primarily wrong.

Econometric studies regarding twenty-four commodity prices and eight commodity price indexes between 1900 and 2000 showed no statistical evidence of a secular or continuous trend in the deterioration of the terms of trade¹⁷. Beyond this issue, the economic science has come to agree with the interpretation that when poor economies grow, the manufacturing sector increases its share of output, but there comes a time when per capita income is sufficiently high that the manufacturing sector loses relative importance. This very same process was experienced by Argentina, reaching an increasing growth in the service sector after the 1980s, without any specific or sharper increase in the reduction of the industrial sector's relevance in the economy during the 1990s liberalization, nor a special recovery after the 2000s¹⁸.

One key aspect that encouraged this situation was the stronger capacity for

¹⁶ Boudreaux, D.J. and N. Ghei (2017) *The Benefits of Free Trade: Addressing Key Myths*, Mercatus Center, George Mason University.

¹⁷ Etchebarne, A. (2008) "Los términos de intercambio y el cambio tecnológico", [in]: *Revista de Instituciones, Ideas y Mercados*, Vol. 48.

¹⁸ Nicolini, J.P. (2011) *Mitos Argentinos sobre la Industrialización*, *Foco económico: un blog latinoamericano de economía y política*. Available [online]: <https://foco-economico.org/2011/10/10/mitos-argentinos-sobre-la-industrializacion/> [in Spanish]

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innovation, and quantity and quality outputs experienced in the industrial sector. The phenomenon was observed especially in areas like computers and other electronics, in comparison with the same metrics in agricultural and mineral goods production. This has led to a greater growth of the supply/demand ratio accompanied by the capacity to locate factories in virtually any place, something harder to achieve in the production of commodities, more tightly locked to natural resources unevenly distributed over the planet¹⁹.

¹⁹ Bianco, C. (2011) "¿Automóviles o vacas? ¿Acero o caramelos? Una discusión teórica sobre especialización productiva y términos de intercambio", [in]: *Revista de Ciencias Sociales. Segunda época*, Vol. 20.



GLOBALIZATION, AS THE EXTENSION OF FREE TRADE AND ECONOMIC INTERNATIONAL INTEGRATION, CORRELATES WITH DEMOCRACY AND PEACE

On top of this problem for agricultural exports countries, until the beginning of the 21st century, the lag in population growth was still under the initial stages of economic development in the largest countries, almost all located in Asia and experiencing the first steps of development. At this level, most gains in income are still devoted to basic needs and demands and have not yet allowed for the complex and upper levels of luxury consumption of goods present in North America and Europe. The previous process could pose a challenge for non-industrialized countries by increasing industrialized goods demand relatively in comparison with agricultural products, thus rising manufactured good prices strongly.

Although, empirically, the theory of trade terms deterioration has been refuted, there have always been enough arguments against it. Protectionist theories have been around since the 15th century, with the first examples being Mercantilist ideas promoting imperialism, high tariffs, and subsidies on traded goods in order to maximize the

exports and minimize the imports for an economy, thus reducing as much as possible the current account deficit or reaching a current account surplus. Among the most common protectionist measures, one can find accumulating monetary reserves by a positive balance of trade, with detailed attention to finished goods.

Historically, such policies have led to war and promoted harmful colonial expansion. In this sense, nationalism and protectionism at the end of the 19th and beginning of the 20th century led to scattered armed conflicts, World War I and II, as well as to a deterioration in the economies of most involved countries. Globalization, as the extension of free trade and economic international integration, correlates with democracy and peace²⁰.

In addition, there is strong evidence that globalization has mitigated rising inequality between participating nations, and that the nations that gained the most are those poor ones that changed their policies to become involved in the said process, instead of remaining isolated. The effect of globalization on inequality within nations also shows that those who have lost the most from globalizations typically have been the non-participants²¹. On the other hand, protectionist policies have proven profoundly negative, as Licicome explains,

"When researchers at the International Monetary Fund recently examined tariff increases in 151 different countries between 1963 and 2014, they found that correlated with such policies were significant declines in domestic output and productivity, more unemployment,

²⁰ Lindert, P.H. and J.G. Williamson (2001) *Does Globalization Make the World More Unequal?*, National Bureau of Economic Research, Working Paper No. 8228.

²¹ Ibid.

*and higher inequality... a dramatic increase in developing-country participation in trade has coincided with an equally sharp decline in extreme poverty worldwide"*²².

The benefits of free international trade are harder to see, while the benefits of shielding specific groups from foreign competition are often immediate and visible, thus paving the way for protectionist rhetoric. But free trade increases access to higher-quality, lower-priced goods by providing cheaper imports, thus allowing people and businesses to use the saved money in acquiring more goods or saving it, favoring investment by easing loans backed by real savings.

Free trade also means improving efficiency and innovation because it helps shift workers and resources to more productive uses, allowing more efficient industries to thrive. The results are higher wages, investment in things such as infrastructure, and a more dynamic economy that continues to create new jobs and opportunities.

The same mechanism drives competitiveness because it requires businesses and workers to adapt to the shifting demands of the worldwide marketplace, as well as to the local demand, which could otherwise obtain products from abroad if the national production does not satisfy them. However, these adjustments are critical to remaining competitive, and competition is what fuels long-term growth.

Free trade may reduce jobs in inefficient industries, but it also frees up resources to create jobs in more efficient ones, thus increasing overall wages and improving

²² Lincicome, S. (2019) "The Case for Free Trade", [in]: *National Review*. Available [online]: <https://www.nationalreview.com/magazine/2019/05/20/the-case-for-free-trade/>



THE BENEFITS OF FREE INTERNATIONAL TRADE ARE HARDER TO SEE, WHILE THE BENEFITS OF SHIELDING SPECIFIC GROUPS FROM FOREIGN COMPETITION ARE OFTEN IMMEDIATE AND VISIBLE, THUS PAVING THE WAY FOR PROTECTIONIST RHETORIC

living standards. In contrast, protectionist policies attempt to protect jobs that the market will eventually not sustain at the expense of more innovative industries, higher prices, and lower qualities and quantities of products for the consumers²³.

At the global scale, free trade allows for increases in productivity by international specialization over comparative advantages,

²³ Boudreaux, D.J. and N. Ghei (2017) *The Benefits of Free Trade: Addressing Key Myths*, Mercatus Center, George Mason University.

allowing for each country to dedicate their human and natural resources to produce what they are best at. This becomes especially important in a planet-wide context, where natural-resources efficient use is highly estimated because of environmental concerns. On the other hand, specialization also allows for greater overall production, which is critical in order to sustain the welfare of the vast majority of the population, particularly the poorer part.

One of the main problems with protectionism constitutes the proven incapacity of countries to develop true competitive productive industries. The initial protections over arbitrary sectors do not allow for the creative destruction process fueled by competition to take place, thus wasting resources and inhibiting innovation. In the long term, these sectors take advantage of the lack of competition to avoid improving or are plainly not able to transform, being highly vulnerable to opening the economy, thus using their influence over the political power to push for the maintenance of the *status quo* in detriment of the general welfare.

In general terms, countries have two ways of industrializing. One is spontaneous and linked to processes of comparative advantages in industrial sectors resulting from the capacity for innovation and specialization to manufacture higher qualities and quantities of products, serving the domestic and foreign markets at the same time and without hindrance. The other one, when focused on the external market, is a forced version in which, in the absence of specialization and advantages, competition is based on the price of the products.

To achieve forced competitive advantages strategies of low wages or currency devaluation by means of monetary emission and

its consequent inflation are chosen, which seriously affects workers in order to allow the industrial export policy abroad. This strategy poses the problem of being forced to keep wages low or the currency devalued indefinitely. Such an approach is harmful and, in many cases, unsustainable, since it fails to replace the real development of sectors resulting from existing comparative advantages, as well as from an innovative competitive process.

Ultimately, while devaluation through monetary emission is necessarily linked to a higher inflationary level paid for by the pockets of the entire population, the focus on low wages not only poses a problem for workers. Currently, this strategy has become vulnerable to advances in robotization and automation that displace labor as a relevant factor in the productive process and the formation of the cost of a product.

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AT THE GLOBAL SCALE, FREE TRADE ALLOWS FOR INCREASES IN PRODUCTIVITY BY INTERNATIONAL SPECIALIZATION OVER COMPARATIVE ADVANTAGES

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WHILE ARGENTINA'S OFFICIAL POSITION IS TO MAINTAIN THE PROTECTIONIST BARRIERS UNAFFECTED, THE REST OF THE COUNTRIES INTEND TO LOWER THE COMMON EXTERNAL TARIFF TO 10%

LATIN AMERICA AND THE STRUGGLE FOR TRADE BORDERS

Almost a century after the beginning of the protectionist movement in the 1930s, many Latin-American countries remain under tight trade restrictions. The 2021 World Trade Organization World Tariff Profiles Report, written jointly with the United Nations Conference on Trade and Development, details that Argentina ranks 15th among 135 countries regarding strong trade barriers for the entry of products. Brazil occupies the 16th position²⁴.

These barriers are put in place via tariff and import duties, as well as special permits

²⁴ WTO, ITC, and UNCTAD (2021) *World Tariff Profiles 2021*.

that delay the entry of goods and produce complex problems in supply and manufacturing chains inside the nation. Added to all these complications are the high competitive costs of local companies. A policy originally intended to protect national industries from competition ended up being used as a mechanism to allow the national state to retain as many U.S. dollars as possible from the agricultural export.

While the national Argentine government keeps the export income dollars and pays the exporters in pesos, at the same time tries to avoid selling importers U.S. dollars in a broad context of a series of restrictions to currency exchange that effectively ends up banning the sale and buying of foreign money. This situation revives the debate inside the regional trading block called MERCOSUR, inside which Brazil, Argentina, Uruguay, and Paraguay are discussing new trading policies that could reduce foreign trade restrictions. While Argentina's official position is to maintain the protectionist barriers unaffected, the rest of the countries intend to lower the Common External Tariff to 10%.

MERCOSUR was created in 1991 in order to allow for greater trade exchange and a unified tariff policy between the countries in accordance with the revised ECLAC recommendations for regional integration. After the economic crises in the late 1990s and again in 2008, Argentina, followed by Brazil, reinstated protectionist measures unilaterally in violation of the accords. These measures remain in place until now and could, eventually, lead to the dissolution of the block. While MERCOSUR is probably a failed example of closed economies unable to restructure their trade policies, the Pacific Alliance shows a different case, comprising Chile, Colombia, Mexico, and Peru. The agreement started in 2011 between the more open economies of the



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Pacific Latin-American coast has proven more effective.

Moreover, MERCOSUR shows, in comparison to the Pacific Alliance, a deeper and more volatile fall in GDP as well as higher inflation, lower economic freedom, lower competitiveness in their economies and higher business barriers and trade restrictions²⁵. In addition, MERCOSUR depends on a few products and geographical markets for their exports, has a larger proportion of its international commerce dedicated to its neighboring countries, and a lower

²⁵ de Gouvea, R. et al. (2014) "An Export Portfolio Assessment of Regional Free Trade Agreements: A Mercosur and Pacific Alliance Perspective", [in]: *Modern Economy*, Vol. 5.

high-tech exports ratio in comparison with the Pacific Alliance. This produces the problem of vulnerability that affects the export portfolio of the block, presenting a worse condition from a risk-return perspective when compared to the Pacific Alliance, something that is a problem not only for national enterprises and governments, but also for any foreign investor²⁶.

The range of interventionist measures in Latin-American countries (especially in nations like Argentina that have strongly applied them) build up a complex network that conspire against production. Let us imagine a company that is trying to manufacture goods and find problems importing products used in their production chain that cannot be found inside the country. Or think of an enterprise that employs thousands of employees, but has grown out of protectionist barriers and faces a new government wishing to open the economy. We can even think of a corporation that has to compete with the import of goods from countries with extremely low taxes, and artificially inflated labor costs – like the ones in Argentina.

While the final objective of any trade policy should be to open and free the economy, the exact path towards that goal needs to handle a complex dismantling of the protectionist economic structure built after decades of trade barriers. The political and social short-term consequences should be addressed if the long-term benefits are to be achieved. High taxes, high import and export duties, complex regulations, currency controls, trade restrictions, bureaucracy, artificial unions, and labor costs, debt, inflations, and a lack of infrastructure conspire together with a poor legal track

²⁶ Martínez Castillo, A. (2016) "The Pacific Alliance and Mercosur: Two Approaches to Economic Regional Integration", [in]: *Papel Político*, Vol. 21(2). Available [online]: <https://www.redalyc.org/articulo.oa?id=77751033007>

record against opening a company, foreign investment, and wealth generation. Each intervention created a problem that prompted other interventions, until the whole economic structure flourishes in inadequate policies hard to disband and with special interest groups fighting for their maintenance.

The myth of an Argentina in need of a commanded industrialization does not hold against the facts of a moderately industrialized country before the 1930s and that



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clearly has experienced a failed forced industrial intervention since then. Nevertheless, beyond the pessimistic impulses we could have, there is a clear path to follow: we could structure a transition using our comparative advantages. The re-opening of the economy must be structured so that existing companies can transform, and labor supply trained and relocated into competitive sectors of the economy.

Even after having to pay around 70% in total taxes, the Argentine agricultural sector remains strong after two decades of high international commodity prices pushed by the economic boom of Asia. If allowed through a tax and labor cost reduction in combination with a bureaucratic and trade easing, it could help finance the expansion of the agricultural-related industrial sector. Here, the country has been able to develop, again against the load of the state, an industry that produces a wide range of machines and equipment for food production, as well as agricultural genetic technology, competing in international markets for its quality. These sectors combined can provide jobs for a wide range of low-, medium-, and high-skilled workers, thus absorbing the vacant supply from uncompetitive industries.

The opportunity must be taken as quickly as it can be. Food production is experiencing a transformational process that could be soon increased up to levels that would revolutionize its technology, thus increasing production capacity far beyond population demand. The world is reaching a point of slow population growth that would be mainly focused in African poor and non-developing conflictive countries, a different process than the one experienced in Asia during the last decades.

Another threat appears on the horizon with increasing demands for dietary changes

in order to reduce food consumption because of moral and environmental complaints. Most agricultural production is used for animal feeding, and if these new demands are met in combinations with artificial meat production, regular agricultural demand could sharply decrease.

The 2020 COVID-19 pandemic poses another threat similar to the one experienced after the two World Wars, when trade restriction fomented economic barriers processes. The disruptions in supply chains generated by the pandemic over international trade can eventually foment production of ersatz goods in order to replace the ones hard or impossible to find in the market.

An example of supply chain disruption consequences is the increase in delivery of chips that has been multiplied in a range of around three to six times the usual waiting time²⁷. This generates problems in many factories – from agricultural machines to home appliances, fomenting fast investment for local production of alternatives of dubious quality. When the international scenario returns to business as usual, these new companies and producers will not be able to compete globally against the regular manufacturers and will probably push for protectionist measures in detriment of the efficiency and welfare of the whole economic system.

CONCLUSIONS: ARGENTINA'S ANTI-TRADE LESSONS FOR THE EU

The main lesson Central and Eastern Europeans may take from Argentina's pro-autarky mentality is twofold. On the one hand, the level of destruction produced by

²⁷ Li, L. and C. Ting-Fang (2021) "How the Chip Shortage Got So Bad - And Why It's So Hard to Fix", [in]: *Nikkei Asia*. Available [online]: <https://asia.nikkei.com/Business/Business-Spotlight/How-the-chip-shortage-got-so-bad-and-why-it-s-so-hard-to-fix>

anti-trade, protectionist policies are paramount. Once among the richest countries of the world, the South American country, nowadays, it cannot keep up with its neighbors. On the other hand, the Latin-American state shows how pervasive and difficult to eradicate these beliefs are.

Most Central and Eastern European, as well as Baltic states, have gone through a spectacular economic revival thanks to the opportunities offered by the European Union regarding trade *within* the bloc. This is because regional trade agreements have a dark side – by their very nature, they are discriminatory. The conditions of relative openness that they bring are only enjoyed by the members. To the outsiders, the situation can be much more complicated. Thus, the EU can be quite open to the inside, but it can also be a fortress on the outside. Definitely not a solution to this discriminatory feature, but a step forward to more openness, was the treaty signed by the EU and MERCOSUR in 2019. The agreement, however, is currently under attack by an unholy alliance between protectionist politicians, agricultural lobbyists, and environmentalists.

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Both the civil societies and political leaderships of Central and Eastern European and Baltic countries should spearhead the defense of the MERCOSUR/EU trade agreement. Not only because these countries are examples of the benefits of trade openness, but also because the opening for trade of a combined population of 260 million with a gross national income (GNI) per capita of approximately EUR 9,500 will help all of them to diversify and become more resilient to shocks or sudden changes. Nowadays, 60% of EU exports go to EU countries, for instance²⁸.

In the same way that structuralism became almost a mental disorder at the base of Argentina's trade policies, the concept of sustainability is dangerously playing a similar role within European elites. Cries about

²⁸ Guinea, O. and I. Pérez del Puerto (2021) "Don't Allow Doubts to Stop the EU-Mercosur Deal", [in]: *Diario El País*, April 19. Available [online]: <https://english.elpais.com/usa/2021-04-21/dont-allow-doubts-to-stop-the-eu-mercosur-deal.html>

sustainability and environmental protection may very well be mere siren calls that hide good old protectionist lobbies. Be that as it may, the sustainability flock seems to ignore one of the most positive and obvious impacts of the trade agreement between MERCOSUR and the EU. Namely, the treaty would facilitate the purchase of EU technology that would lead to more efficient production and lower emissions. More trade will make MERCOSUR's economic growth more sustainable²⁹.

²⁹ Fernández, F. N. (2019) *The EU-Mercosur Trade Deal and the Lunacy of Protectionism*, Austrian Economics Center Daily. Available [online]: <https://www.austrian-center.com/eu-mercosur-trade-deal-protectionism/>



*
FEDERICO N.
FERNÁNDEZ

Executive Director at the Somos Innovación (LatAm), Senior Fellow with the Austrian Economics Center (Austria), and Founder and President of Fundación Internacional Bases (Argentina). He is also the Chairman of the Organizing Committee of the International Conference "The Austrian School of Economics in the 21st Century" (OeNB, Vienna, Austria - November 3-5, 2021)



*
FRANCO MARTÍN
LÓPEZ

Research Director at the Bases International Foundation. As an architect, he has delivered several conferences and published different articles on the topic of spontaneous urban planning in Latin America, Europe, and the United States. He holds a diploma on Municipal Management and is currently writing a dissertation for his Masters in Urban Economics

Don't Worry, Be Open!



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MONIKA
BUDZÁK

Protectionism is a frequently used political tool. Sometimes, it is hidden in complicated laws, other times it is presented quite openly. As society is witnessing a wave of populist and nationalist ideas in Europe, especially in Central and Eastern Europe (CEE), protectionist ideas are still widely accepted.

Politicians across the political spectrum bring up the question of autarky, or self-sufficiency in general, whenever they want to gain attention and stir emotions. Whether it concerns food supplies, protective equipment, medicine, or fuels, all of these can be seen as too important to be in the hands of the market.

What proponents of self-sufficiency omit is the fact that the state of wealth we are currently witnessing is a result of the market economy, not autarky. No tools and ideas from the command economy could ensure more prosperity. But like economist Frederic Bastiat described in his concept *what is seen and what is not seen*, the majority of people tend to see only the first and direct effects of a political idea, neglecting its secondary and long-term consequences.

However, fighting for self-sufficiency in a political campaign does not mean that the political party has the tools to ensure it. This is the case in several countries (Slovakia, Czechia, Poland, etc.), where governments passed poorly prepared laws in order to favor domestic production. The result: no self-sufficiency, but many costs related to adopting these policies and legislative chaos.

People who believe in personal and economic freedom should not cherry-pick ideas which intend to support protectionist policies – like self-sufficiency. Of course, citizens would like to see their home

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country become prosperous, but the way to achieve this is to cooperate with the outside world, not to close the borders and adopt protectionist measures.

Post-communist countries were the ones that have experienced decades of closed borders and poverty. Despite this fact, there are still people who felt some kind of security during this era, to which they look back with nostalgia, or even people, who have not witnessed a planned economy, but imagine that the world back then was better. The clash between people who were able to flourish thanks to the market economy versus those who cherish the memory of a secure socialist state is still present and will probably last for another several years.



FIGHTING FOR SELF-SUFFICIENCY IN A POLITICAL CAMPAIGN DOES NOT MEAN THAT THE POLITICAL PARTY HAS THE TOOLS TO ENSURE IT

In order to keep freedom, the market economy and its benefits, the voice of liberalism has to be present. This is also the case of this issue of *4liberty.eu Review*, which is a compilation of articles dedicated to the topic of self-sufficiency. The authors look back to history, analyzing case studies from Poland, Czechia, Ukraine, Slovakia, and even Latin America, and show how ideas of autarky occur in different areas and sectors, although the main foundation stays the same. Politicians are still claiming to *protect* the domestic market, but in practice creating no real changes or even the opposite – harming domestic producers and consumers. This is precisely why the voice of experts and activists needs to be heard in the public discourse. Otherwise, the general public will have no access to the other side of the coin, which shows the costs of these harmful policies.

The Reader should pay attention to the various problems existing in CEE countries, which are often addressed by politicians in a populist or nationalist manner. Of course,

the opinions about the best solutions may differ, but the main benefits of openness stay the same. In this regard, it is interesting to read about the *creative* reasons brought up by politicians on how self-sufficiency should be implemented. In Czechia, a law about an obligatory portion of Czech agri-food products on supermarket shelves was highly discussed. The list of domestic products contained even salt, despite the fact that there are no salt mines in the country. Although the COVID-19 pandemic has been a huge challenge for humanity, it also brought up some positive political change. This is the case in Ukraine, where the pandemic triggered an overall facilitation of trade in certain products.

The process of transforming to market economies was not easy nor smooth, but it brought gains in wealth and a better standard of living for ordinary people in CEE. We should be aware of policies which aim to step back to isolationist times, when the top-down approach limited any personal determination and ambitions. Entrepreneurship and openness to trade should be rewarded, not punished, because of poor political objectives. Therefore, we need to keep emphasizing the importance of defending economic freedom both in the near and the distant future.



MONIKA
BUDZÁK

INESŠ's Program Manager and Analyst. Her research focuses on economic issues in agriculture. Since 2014, she is also responsible for various educational programs at INESS, e.g. the Economics Olympiad, with more than 8,500 participants in 2020. She graduated from the University of Economics in Bratislava and completed two semesters abroad - at the Vienna University of Economics and Business and at Technische Universität Dresden

MEMBERS OF 4LIBERTY.EU NETWORK

Free Market Foundation (Hungary) is a think tank dedicated to promoting classical liberal values and ideas. The organization's projects focus on advocating a free market economy and fighting racism. The Foundation's activities involve education, activism, and academic research alike, thus reaching out to different people.

Liberální Institut (Prague, Czech Republic) is a non-governmental, non-partisan, non-profit think tank for the development, dissemination, and application of classical liberal ideas and programs based on the principles of classical liberalism. It focuses on three types of activities: education, research, and publication.

The Lithuanian Free Market Institute (Vilnius, Lithuania) is a private, non-profit organization established in 1990 to promote the ideas of individual freedom and responsibility, free markets, and limited government. The LFMI's team conducts research on key economic issues, develops conceptual reform packages, drafts and evaluates legislative proposals, and aids government institutions by advising how to better implement the principles of free markets in Lithuania.

The F. A. Hayek Foundation (Bratislava, Slovakia) is an independent and non-political, non-profit organization, founded in 1991, by a group of market-oriented Slovak economists. The core mission of the F. A. Hayek Foundation is to establish a tradition of market-oriented thinking in Slovakia – an approach that had not existed before the 1990s in our region.

IME (Sofia, Bulgaria) is the first and oldest independent economic policy think tank in Bulgaria. Its mission is to elaborate and advocate market-based solutions to challenges faced by Bulgarians and the region face in reforms. This mission has been pursued since early 1993 when the institute was formally registered a non-profit legal entity.

The Academy of Liberalism (Tallinn, Estonia) was established in the late 1990s. Its aim is to promote a liberal world view to oppose the emergence of socialist ideas in society.

INESS (Bratislava, Slovakia), the Institute of Economic and Social Studies, began its activities in January 2006. As an independent think tank, INESS monitors the functioning and financing of the public sector, evaluates the effects of legislative changes on the economy and society, and comments on current economic and social issues.

Projekt: Polska (Warsaw, Poland) comprises people who dream of a modern, open, and liberal Poland. It is those to whom a democratic, effective, and citizen-friendly government is a key goal, and who help accomplish this goal while enjoying themselves, forming new friendships, and furthering their own interests.

Liberales Institut (Potsdam, Germany) is the think tank of the Friedrich Naumann Foundation for Freedom dedicated to political issues such as how liberalism can respond to challenges of the contemporary world and how liberal ideas can contribute to shaping the future.

Fundacja Liberté! (Lodz, Poland) is a think tank created in Łódź in 2007. Its mission is to promote an open society, liberal economic ideas, and liberal culture, and to organize a social movement around these ideas. Among the foundation's most recognizable projects are: Liberté!, Freedom Games, 6. District. The foundation is coordinating the 4liberty.eu project on behalf of Friedrich Naumann Foundation.

Republikon Institute (Budapest, Hungary) is a liberal think tank organization based in Budapest that focuses on analyzing Hungarian and international politics, formulating policy recommendations, and initiating projects that contribute to a more open, democratic, and free society.

Civil Development Forum (FOR) (Warsaw, Poland) was founded in March 2007 in Warsaw by Professor Leszek Balcerowicz as a non-profit organization. Its aim is to participate in public debate on economic issues, present reliable ideas, and promote active behavior. FOR's research activity focuses on four areas: less fiscalism and more employment, more market competition, stronger rule of law, and the impact of EU regulations on the economic growth in Poland. FOR presents its findings in the forms of reports, policy briefs, and educational papers. Other projects and activities of FOR include, among others, Public Debt Clock, social campaigns, public debates, lectures, and spring and autumn economic schools.

Visio Institut (Ljubljana, Slovenia) is an independent public policy think tank in Slovenia. Aiming for an open, free, fair, and developed Slovenia, the Visio Institut is publishing an array of publications, while Visio scholars regularly appear in media and at public events.

The Institute for Economic Research and Policy Consulting (Kiev, Ukraine) is a well-known Ukrainian independent think tank, focusing on economic research and policy consulting. IER was founded in October 1999 by top-ranking Ukrainian politicians and scientists, and a German advisory group on economic reforms in Ukraine, which has been a part of Germany's TRANSFORM program. Its mission is to provide an alternative position on key problems of social and economic development of Ukraine.

New Economic School – Georgia (Tbilisi, Georgia) is a free market think tank, non-profit organization, and NGO. Its main mission is to educate young people in free market ideas. It organizes seminars, workshops, and conferences for education and exchanges of ideas. NESG was founded by Georgian individuals to fill the knowledge gap about the market economy in the country and the lack of good teachers and economics textbooks.

ASSOCIATE MEMBERS

Centre for Economic and Market Analyses (CETA) (Prague, Czech Republic) is a pro-market think tank. Its main goal is to analyze the market, socio-economic and political phenomena in the Czech Republic, and point out their impacts.

Svetilnik (Ljubljana, Slovenia) is a non-profit, non-governmental, and non-political association. Its mission is to enlighten Slovenia with ideas of freedom. The goal of the association is a society where individuals are free to pursue their own interests and are responsible for their actions.

MARTIN REGULI
**THE MYTH OF AUTARKY AND SELF-SUFFICIENCY FROM MERCANTILISM
TO THE PRESENT DAY: WHY DO WE STILL FALL FOR THE IDEA WHEN DEPENDENT
ON EXPORT FOR SURVIVAL?**

PAGE 004

The trademark of self-sufficiency is the dismantling of the rights and privileges of specific segments of the society, while promoting the economic interests of the producers that are controlled by the state.

ŠÁRKA SHOUP
**CZECH PERSPECTIVE ON SELF-SUFFICIENCY VERSUS SPECIALIZATION:
ENCOURAGING AUTARKY OR COOPERATION?**

PAGE 036

Resilience and robustness are also being used as justification for adopting autarky, or quasi-autarky, albeit wrongly. Making Europe less dependent on international goods and supply chains would only reduce the continent's resilience and robustness, making it weaker.

MONIKA BUDZAK
SELF-SUFFICIENCY IN SLOVAK AGRICULTURE: A PIPE DREAM

PAGE 052

In today's globalized world, complete self-sufficiency is very difficult to achieve. Even a simple sandwich requires a huge amount of work and a high degree of cooperation.

ALEKSY PRZYBYLSKI
POLISH AGRICULTURAL AUTARKY: PLOW THE SUBSIDIES IN!

PAGE 070

It may be a paradox to many, but we may achieve greater food self-sufficiency by freeing the industry and allowing it to be regulated directly by the market. In this way, we will effectively and continuously eliminate resource-wasting enterprises while supporting those with increasing productivity.

VERONIKA MOVCHAN
**SELF-SUFFICIENCY VERSUS DEPENDENCE ON INTERNATIONAL TRADE:
THE LESSONS FROM COVID-19 FOR UKRAINE**

PAGE 086

The result of Ukraine's exports highlighted the importance of geographic diversification. The exports to the EU, the largest trade partner, dropped by 10% as its economy was hit hard by the pandemic. However, this decline was counterbalanced by soaring exports to China.

MARTIN PANEK
FOOD SELF-SUFFICIENCY: AN ANALYSIS OF A DEFEATED CZECH BILL

PAGE 100

Since the Czech Republic is a free country and a market economy, retail outlets cannot force consumers to buy Czech food over imported food – at most, they can incentivize them, for example, with a lower price or an advertising campaign.

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