

Newsletter on the Common Agricultural Policy

No. 11

November 1968

Contents

A new approach to the common agricultural policy

	<u>Page</u>
I: Objectives of the European Community	2
II: Agricultural policy in the European Community	2
III: Progress made in implementing the common agricultural policy by mid-1968	4
IV: Criticism of current market and price policy	6
V: The present cruxes in agriculture	6
A. Overproduction	6
B. Dumping on the world market	7
C. Consumer prices	8
D. Farm incomes	9
VI: The causes of agricultural problems	11
VII: Measures of social and structural policy which can be taken in order to achieve the objects of the common agricultural policy	14
A. Conversion of agricultural land to other purposes	15
B. Measures to promote productivity	16
C. The market and marketing structure	17
VIII: Inefficient solutions	17
A. Prices	17
B. Autarky	18
C. Rural depopulation	18
IX: The Community's task	19
X: The effect of a new agricultural policy in the short and longer term	20

I: Objectives of the European Community

When the Second World War came to an end, Europe was faced with the task of repairing the devastation. Beside political motives which stimulated close co-operation between the countries of Western Europe, there were economic considerations which rendered expansion of markets highly desirable. During the economic crisis of the nineteen-thirties and the subsequent years of war, all countries had departed very far from the international free trade of the nineteen-twenties. On top of this, in the early years after the war the shortage of reliable means of payment made international transactions so difficult that each country aimed at self-protection and autarky. As the situation gradually returned to normal, the feeling gained ground that the world should go back to the free trade system. However, the thirties had still not been forgotten, and people considered that no country should be at the mercy of the caprices of international trade in the event of economic crisis. The authorities wished to be able to influence the economic situation. And if free trade is wanted, and also a set of instruments for influencing the economic situation, a common economic policy between countries is bound to result.

II: Agricultural policy in the European Community

According to Article 39 of the Treaty of Rome, the objectives of the common agricultural policy are:

- (a) to increase agricultural productivity by stimulating technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, particularly labour;
- (b) to ensure thereby a fair standard of living for the agricultural population, particularly by increasing the individual earnings of persons engaged in agriculture;
- (c) to stabilize markets;
- (d) to guarantee regular supplies; and
- (e) to ensure reasonable prices in supplies to consumers.

.../...

In 1960 the Commission issued its "Proposals for the working-out and putting into effect of the common agricultural policy in application of Article 43 of the Treaty establishing the European Economic Community." In Part II (Basic principles) it stated that agriculture should be regarded as an integral part of the economy, owing to the close links between this and the other sectors of the economy. Hence, the Commission concluded, general economic problems can only be solved if agriculture is also associated with them, and many agricultural problems cannot be solved without measures outside the sphere of agriculture. In sections 9 and 10 the Commission indicated the paths which it considered should be followed in developing the common agricultural policy:

"9. Since the action to be taken on both the national and Community plane must be coherent and effective, and since all discrimination between producers and consumers within the Community is to be excluded, the common agricultural policy must cover the chief fields dealt with by the national agricultural policies as at present applied. This is why it is essential to define at one and the same time:

- (a) the policy on the structure of agriculture;
- (b) the policy on agricultural markets;
- (c) the commercial policy (to the extent necessary for putting the market policy into effect); and
- (d) the social policy in the agricultural sphere to be applied in the Community.

"10. The various aspects of agricultural policy must be brought into close correlation:

- Structural policy must help to reduce and approximate costs in the agriculture of the six countries and to guide production rationally in the light of market trends.
- Market policy must take into account the need for improving agricultural productivity and to this end be based on the conditions found in economically viable enterprises of adequate productivity.
- Commercial policy in the agricultural sector must contribute to the success of the market policy by stabilizing and facilitating trade in agricultural products between the Community and non-member countries. At the same time it forms part of the general commercial policy, which is directed to the harmonious growth of world trade. It is of great

importance for the contribution to this growth made by the agricultural sector that the competitive capacity of agricultural enterprises should be improved, particularly by means of an active structural policy.

- Social policy in the agricultural sphere is a part of general social policy and must contribute, simultaneously with structural, market, and external trade policy, to improving the living and working conditions of the farming population and bringing these conditions closer to the level obtaining in other comparable occupational categories."

III: Progress made in implementing the common agricultural policy by mid-1968

Certain essential elements of the agricultural policy have now been implemented. Common price and market arrangements have been introduced for nearly all farm products. This was needed to ensure that, in conditions of free competition, producers in the six countries would not have to operate in differing circumstances because of highly divergent prices; dealers can now buy and sell products across intra-Community frontiers without having to pay levies. Exports to non-member countries are facilitated by the payment of uniform refunds to exporters, and imports are everywhere subjected to equal levies.

Although differences still exist as regards the market support given to some products, and although divergent veterinary and health legislation can still cause disturbances, the market and price policies (including commercial policy) are now common policies. Nevertheless, this does not mean that a final result has been reached. For the Treaty, and the objectives of a common agricultural policy laid down in 1960, require the Community to do more than it has done so far. We are still saddled with surpluses of various commodities; the farmer's income is still not equal to that in the other sectors; and, furthermore, it is doubtful whether consumers are paying fair prices and whether the Community is actively helping to stabilize the international markets in farm produce at a reasonable level. On these grounds, the need for a social policy and a structural policy becomes more and more pressing. When the instruments for implementing the agricultural policy were created, the intention was to develop social and structural policies simultaneously with the market and commercial policies. A start was made along these lines with the establishment of the European Agricultural Guidance and Guarantee Fund. This was set up by Council Regulation No. 25/62, and its mode of operation was further defined in Regulation No. 17/64/CEE.

The Guidance Section of the Fund deals with the following matters:

1. Adaptation and improvement of the conditions of agricultural production;
2. Adaptation and guidance of agricultural production;
3. Adaptation of the marketing of farm products subject to the Community market regulations.

After vetting applications for assistance, the authorities in the Member States pass them on to the Commission. The Guidance Section of the Fund can finance the investment concerned up to a maximum of 25% and in exceptional cases up to 45%. However, since the number of applications, and consequently the total amounts involved, greatly exceed the resources available, a choice always has to be made among the projects. It is no simple matter to decide what criteria should govern this choice. In the first place, the amount which each Member State must contribute to the Fund is fixed:

Germany	31.2%
France	32.0%
Netherlands	8.2%
Italy	20.3%
Belgium	8.1%
Luxembourg	0.2%

However, these projects must satisfy certain minimum requirements: they must form part of structural improvement schemes and must have a guaranteed long-term profitability.

In 1967, with a view to improving co-ordination of the structure policies of the member countries and of the EAGGF, the Commission proposed to the Council ten Community programmes,¹ setting out more detailed requirements. These programmes were to extend over three years, and 672 million u.a. were to be made available for eligible projects.

It proved impossible to reach agreement on these proposals. So it was decided that the existing arrangements should be extended

.../...

¹ See Newsletter on the Common Agricultural Policy No. 3-1967. July 1967.

for one year, pending definitive proposals to be submitted by the Commission in a Memorandum to the Council in November 1968. Summing up, we can say that, so far, it is national structure policies that have been pursued in the European Community, with the help of subsidies from the EAGGF Guidance Section.

IV: Criticism of current market and price policy

Current policy has been adversely criticized in many quarters. Some people declare that it has missed the mark and is the cause of all the present difficulties. Others consider that the chief cause of these difficulties does not lie here, since many of the problems facing us now would have arisen without the Community arrangements, and Community action has done no more than reveal them sooner, if that. Our intention here is to see which of these views is correct. The present acute problems will be summed up in Section V, and their causes will be analysed in Section VI. In Section VII an attempt will be made to say what measures may help to solve the problems and what measures are definitely unsuitable.

Adverse criticism falls under the following main heads:

- (a) The outside world considers that the European Community is not only protectionist but is also autarkic and guilty of dumping.
- (b) Consumers had expected products to become cheaper than they have.
- (c) The farmers find their income too low and consider their livelihood in danger.
- (d) Finance Ministers and taxpayers think that the EAGGF's current spending to support markets and prices is both excessive and unprofitable, since the problems are not being solved.
- (e) Scientific examination indicates waste and the absence of measures conducive to lasting improvements.

V: The present cruxes in agriculture

A. Overproduction

Where there is no demand for the quantities offered by producers and the goods in question must be taken from the market by some means or other, this is overproduction, a distinction should be made between fortuitous and structural overproduction.

Where fortuitous overproduction takes place (i.e. without wilful action by the producer, mainly caused by the weather), there is some justification for remunerating farmers for their produce. But what is to be done with the produce, which is often perishable (e.g. fruit and vegetables), if there are no takers even when it is offered as a gift? At one time, the goods simply perished on the farm and public opinion was unmoved. Protests only began to be made when produce had to be destroyed after being paid for, though no one has come forward with a real solution to the problem. As a last resort, destruction of fortuitous overproduction may be allowed.

The problem of structural surpluses, which have been evident in many products in recent years - for example, dairy produce and sugar - is considerably more complex. In the Netherlands it has been calculated that the cost of importing the concentrates used to produce the marginal quantities of milk sometimes exceeds the return on the corresponding dairy products, for these marginal quantities have to be sold on the world market. In the economy as a whole the remuneration of factors of production in such cases was nil or even negative.

B. Dumping on the world market

In the words of the Anti-dumping Code agreed by the participants in the Kennedy Round, a product is considered as being dumped if "the export price of the product exported from one country to another is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country". In the countries of the European Community, the appropriate steps have been taken to combat dumping either by other Community or by non-Community countries.

Outside the Community, however, there is a widely held view that the Six regularly contribute to distortion of the world market by selling their surpluses at cut prices. Internationally, the aim is that production should be located in those areas where production is most rational, i.e. where production costs are the lowest. Hitherto, sales of a number of products on the world market have been mainly dependent on the public purse in the exporting countries.

This puts the developing countries in a particularly difficult situation since they do not have the financial resources to back their exports sufficiently to offset the support provided by the developed countries, and it is the developing countries in particular which are often so dependent on revenue from the products they export. The regulation of the world market in farm commodities is also essential to the development of these countries. The tables at pages 8a and 8b show the relation between prices in the Community countries, on the world market and in some individual exporting countries.

C. Consumer prices

In the European Community, preference has been given to the system in which the consumer pays the price which the producer receives (plus distribution and processing costs). In the United Kingdom, however, preference has been given to a system in which the world market price is the basis for the consumer price. This means that in the Community the producer is supported via the price; in the United Kingdom the producer is supported via taxation. Criticism is directed not so much against this difference as against the costs which the consumer ultimately pays, either directly or indirectly.

If production is not efficient (for instance, because the combination of factors of production is far from being optimum), the consumer may pay much higher prices than when production takes place under optimum conditions. Naturally, agriculture is adjusting itself to this by improving the combination; but how much time does it need in order to do so? The gap between the ideal and the actual situation may be widening. In Article 39 of the Treaty of Rome, mention is made of reasonable prices for consumers. Now, many people contend that "reasonable" there indicates prices which yield a rationally producing farmer an income equivalent to that of a skilled tradesman. "A rationally producing farmer" here is one who works with a near-optimum combination of factors of production and up-to-date methods. Many farmers, however, have holdings which are much too small, and partly as a result of this they are unable to make rational use of new technical methods. In fact, cases are constantly occurring where young people take over holdings on which no efficient production is possible, and it is hardly practicable to go on guaranteeing these persons a fair income (to be paid by the consumer).

Prices received by agricultural producers, crop year 1966/67

(\$/100 kg)

	<u>Bel-</u> <u>gium</u>	<u>Ger-</u> <u>many</u> (FF)	<u>France</u>	<u>Italy</u>	<u>Luxem-</u> <u>bourg</u>	<u>Nether-</u> <u>lands</u>	<u>UK</u>	<u>Denmark</u>	<u>Norway</u>	<u>Sweden</u>	<u>Austria</u>	<u>Switzer-</u> <u>land</u>	<u>USA</u>
Common wheat	9 960	10 750	8 710	10 890	10 800	10 193	7 050	7 520	13 684	11 113	9 462	15 654	7 827
Rye	8 160	9 650	7 598	9 866	10 500	9 831	5 947	7 395	12 949	10 299	8 723	12 742	4 212
Barley	8 280	10 568	7 683	8 598	-	9 008	6 661	7 453	10 563	9 058	-	12 476	4 869
Oats	7 580	9 260	6 500	8 240	-	9 202	7 305	7 038	9 323	-	-	-	4 616
Maize	-	-	8 317	7 843	-	-	-	-	-	-	8 000	-	5 079
Fat cattle (live weight)	58 820	57 833	62 426	67 872	62 040	63 812	44 943	39 959	50 960	60 891	45 731	62 173	48 921
Fat pigs (live weight)	63 980	66 975	68 037	72 832	64 520	60 221	51 190	54 437	58 100	65 917	56 885	77 427	41 844
Cow's milk (actual fat content)	8 800	10 050	8 355	10 410	9 900	9 552	9 912	6 926	12 541	10 767	8 846	11 801	11 023
Fat content (%)	3.30	3.75	3.30	3.50	3.70	3.70	-	4.22	4.13	3.98	3.50	3.77	-

Source: CEE-Information - Marchés agricoles. Special number, May 1968.

Community prices¹ and world market prices²
compared (1967/68)³

<u>Commodity</u>	(1) <u>Community</u> <u>price</u> (u.a./100 kg)	(2) <u>World market</u> <u>price</u> (u.a./100 kg)	(3) (1) as % of (2)
Common wheat	10.73	5.79	185
Durum wheat	16.14	8.07	200
Hulled rice	17.96	15.34	117
Barley	9.07	5.67	160
Maize	9.01	5.63	160
White sugar	22.35	5.10	438
Beef and veal	68.00	38.82	175
Pigs	56.71	38.56	147
Poultry	72.33	55.00	131
Eggs	51.14	38.75	132
Butter	187.44	47.25	397
Olive oil	115.62	69.84	166
Oilseeds	20.19	10.11	200

¹ Including direct support for production of durum wheat, olive oil and oilseeds.

² Wholesale prices.

³ The reference period varies according to commodity.

Another object of criticism is the policy on surpluses. Surplus butter, for instance, is sold abroad by means of very high export refunds. But the home consumer would like to profit from this surplus situation by paying lower prices for his butter. He is not enabled to do so; and many people feel this to be unjust.

D. Farm incomes

Farmers want an income which is equal to that of a highly skilled worker in other sectors of the economy. But most agricultural producers in the European Community have an income which is lower than this. Furthermore, many farmers have much longer working hours than are customary in other sectors. Consequently, the disparity in wages per hour is even greater than that between wages per year.

However, not only are there disparities between agriculture and other sectors; there are also disparities within agriculture itself. The table below, taken from "Informations internes sur l'agriculture"¹ No. 20, p. 324, demonstrates these internal disparities in the income of Dutch entrepreneurs whose main occupation is agricultural from holdings 4 to 100 hectares in area.

It appears that the average income from holdings 50 to 100 hectares in area is 6.4 times that from holdings 4 to 7 hectares in area. In the years concerned the large holdings yield a return which is certainly twice the earnings of a skilled tradesman, while the small holdings do not even yield half that amount. From this the conclusion can be drawn that current price and market policies are obviously not capable of solving the income problem. For a price increase pushes incomes from the big holdings up much more than incomes from the small holdings, and hence the disparity within agriculture will increase.

.../...

¹ Income here means what remains after all costs, including land and capital, have been deducted.

Income of Dutch entrepreneurs whose main occupation is
agricultural from holdings 4 to 100 hectares in area

(Fl./holding)

	1959/60	1960/61	1961/62	1962/63
4-7 ha	3 130	3 950	3 549	2 499
7-15 ha	4 820	5 361	5 307	3 971
15-30 ha	8 005	8 337	7 798	6 078
30-50 ha	14 917	12 668	11 463	12 238
50-100 ha	24 591	19 090	17 201	22 944

Source: "Statistiek voor de bedrijfsuitkomsten in de
landbouw", 1962-1963, p. 11, Netherlands
Central Bureau of Statistics, The Hague.

VI: The causes of agricultural problems

The problem of agriculture as a sector is no new one. Ever since the beginning of this century, incomes in agriculture have tended to lag behind those in other sectors, except in war-time; what is more, the farming population, as well as its share in the national income, has been declining in relative terms.

The reason for this is technical progress. Productivity in agriculture has greatly increased, and the demand for farm products has not kept up with it. Consequently, a large proportion of agricultural workers has been forced to leave the land, and farm incomes still remain far behind other incomes. The income from farming depends on productivity and price - that is to say, the number of units of net output multiplied by the price per unit. Price is an economic factor equating supply with demand. If supply is relatively great, price will establish itself at a very low level. Price therefore guides both production and demand; it indicates how much production capacity should be used and what combination of factors of production will yield the best results. According to classical (liberalist) theory, this process will find its optimum form for itself, and intervention only hinders adjustment. However, during the last century this theory has not fitted the facts, because adjustment takes place far too slowly and technical progress has been so swift as to render the problem of agriculture an almost continuous one.

Technical progress makes itself felt in many ways, such as:

- (a) better training of farmers, with emphasis on the technical and rational management of farms;
- (b) introduction of more productive breeds and varieties;
- (c) use of artificial fertilizers, pesticides, etc.;
- (d) application of labour-saving methods and machines.

The effect of these factors is considerable and is manifested in two ways in particular:

1. The chief result of (a), (b) and (c) is to increase production per hectare and per cow and, in addition, to bring about a relative reduction in costs per unit of output. This means greater productivity, and,

at constant prices, it would also lead to improvement in incomes. However, since production outstrips demand, prices go down so far in relative terms - owing to low price elasticity and income elasticity for farm products - that the farmer's income (net production multiplied by price) tends to lag far behind incomes in other sectors.

2. A great change has taken place in the optimum relationship that should subsist between factors of production when production is efficient. For instance, the optimum number of hectares per man in arable farming (cereals, root crops, etc.) has risen from a few hectares to 20-50 hectares, depending on how intensively they are farmed, and the number is still rising. Employment of machines is very important in this connection. For instance, if a combine harvester or potato lifter is to be profitable it will have to be used on dozens of hectares.

Naturally, use can be made of paid services or machinery-using syndicates, but then a surplus of labour will arise on the smaller farms. The size, shape and location (i.e. whether scattered, etc.) of the fields under cultivation also, of course, play an important part as rationalization and mechanization increase; the same applies to farm buildings. The desired amount of capital per man has also risen steeply. This has caused a financing problem which is likewise far from being solved. In Western Europe, many steps have been taken in order to cope with these problems.

In the field of price policy, intervention assumed the form of imposing a levy on imports from abroad (where production is often at lower cost) when the price of imports was below a certain level. Exporting was facilitated by the provision of refunds so that domestic producers could compete with low prices on the world market. This made the level of domestic prices independent of foreign prices. The mode of determining this level is, however, problematic; on what, you may ask, should it be based?

- (i) If one proceeds from the standpoint that everybody should have a fair income, the price for rational producers would become so profitable that they would try to expand production in all possible ways.
- (ii) If the price is based on the results from rational farms, the marginal holdings would be completely ruined, and this would bring with it all the concomitant social complications.

The level of prices hitherto fixed in the EEC has raised problems from both sides: on the one hand, growing surpluses; on the other hand, low incomes, especially on small farms.

In the sphere of infrastructure, attention has been primarily concentrated on consolidation of holdings and soil improvement. The effect of these measures has been, first and foremost, to reduce costs. Usually, the highly desirable increase in area per holding did not take place. Many cases are known in which the average size of holding in a region only rose from, for instance, 10 to 12 hectares. Policy in this sphere has not, in fact, contributed much towards a final solution, and in many cases consolidation of holdings has awakened unjustified hopes among the farmers concerned.

These are, generally speaking, the causes of the present difficulties as seen from a technological point of view. Developments within the EEC have deliberately not been examined separately here, since the problems touched upon also occur outside the six Member States and would have occurred within the Six even if the common market were not playing the part it now plays. It should, however, be pointed out that establishment of the EEC has caused the problems to manifest themselves in some sectors and regions more quickly than they otherwise would have done. For it is in the countries where prices have been fixed for social reasons at what is perhaps too high a level that the problem of surpluses has become so urgent; and in the former "high-price countries", where prices have been reduced, the social aspect has become very topical.

Nevertheless, this is not a complete picture of the problems. Besides the technical aspects, social aspects also merit attention. We have not yet tackled the question why farmers are slow to leave their small holdings, with their relatively low incomes, and try their luck elsewhere.

- (i) A farmer practises an independent occupation; he can decide for himself when he will work and how he will work. This is a psychological aspect of the life of all small self-employed workers. Farm labourers switch over to other occupations much more quickly than farmers do.
- (ii) An obstacle in the way of farmers leaving the land is their close relationship with nature, together with sentiments about the connection with the soil which the family has cultivated for generations past.

(iii) Once these two barriers, of personal freedom and links with the soil, have been surmounted, the farmer is still faced with the difficulty of finding a living elsewhere. Whatever he does, his new job often involves loss of status. He becomes dependent on others and has manifestly failed as a farmer. But he frequently cannot find a job elsewhere, since he is not skilled in anything outside agriculture. There are often no facilities for retraining. In fact, when a man is older than, say, forty-five, further training is often no help to him.

In many cases, agricultural problem areas are at the same time areas in which industrial development is inadequate and migration can be very difficult. A whole string of obstacles hinders departure from the land.

Consideration of the causes described above reveals the dilemma facing Community agricultural policy. The problems accumulate. The costs of the common policy are rising rapidly. Reductions in prices will be contemplated and will perhaps prove to be necessary, but their effect must not be overestimated. For the elasticity of supply is very low, mainly because many investments have been made following the price increases in certain fields. Furthermore, the social problem becomes more acute as a result. So it is obvious that other paths must be chosen, in the fields of structural policy and social policy.

VII: Measures of social and structural policy which can be taken in order to achieve the objects of the common agricultural policy

If agriculture in the Community is to realize the objectives of the Treaty, it should exhibit the following pattern:

1. It should be socially and economically integrated into communal life.
2. Provision should be made for reasonable self-sufficiency, with no autarky and no structural overproduction.
3. The level of productivity should be such as to guarantee fair consumer prices and to ensure that the EEC can compete on a regulated world market.
4. The previous points already imply that an efficient farm must yield a fair income to the farmer.

Of course, it would be unrealistic to think that the face of agriculture could be changed overnight along the lines described above. Nevertheless, this new face should be kept in mind, and endeavours should be made to offer the new generation of farmers work in a modern agricultural system as soon as possible. In the shorter term there are two main problems. "How can the unfavourable cost structure in many regions be improved?" and "How can the deteriorating situation as regards surpluses be remedied as soon as possible?"

A. Conversion of agricultural land to other purposes

There are areas in the Community where, despite expensive structural measures (consolidation of holdings, soil improvement and larger-scale farming), the natural conditions are such that a sufficiently productive agriculture is impossible.

Moreover, it is in these areas that many low incomes are found. If they are eliminated as agricultural areas under a regional planning programme, production is reduced and the number of low incomes drops relatively sharply.

However, it is a social and political problem to try to induce farmers to abandon these holdings. Many people will immediately shout "dirigisme" or "collectivization". But they forget that the free market, left to itself, might have eliminated the establishments concerned long ago, with much more misery than is entailed by the current arrangements for winding up a holding. After all, these holdings are kept going artificially by unprofitable support measures; it would be better to provide financial inducements for giving them up.

The area thus freed could be used for recreation or afforestation in order to prevent depopulation as far as possible. The social aspect calls for much attention, assuming that older farmers can no longer be expected to succeed in finding jobs elsewhere.

Middle-aged farmers must be paid bounties for closing down their farms, and trained for another occupation free of charge.

Young farmers and farmers' sons should be told that they cannot reckon on a reasonable income in the future if they work an inefficient holding.

The provision of good training facilities and a regional employment policy are essential if such a policy is to succeed.

B. Measures to promote productivity

The agricultural system which remains should, however, be modernized. The problem of surpluses can be solved in principle by taking steps of the kind mentioned above. But great differences in costs will persist between regions.

The structural measures for agriculture should be aimed at achieving a combination of the factors of production (labour, land and capital) which offers favourable prospects in the longer as well as in the shorter term, and whereby these factors would also become more mobile or adaptable, guaranteeing production at minimum cost. This implies that:

1. In certain areas, many people will have to leave agriculture.
2. The land thus rendered available must be used in order to create farms of adequate size.
3. Land use operations concerned with moving farm headquarters, consolidating holdings, constructing roads, improving the soil, etc., should assure a permanent maximum reduction in cost per unit of output, though at the same time the interests of the national economy must not be overlooked.
4. Agriculture will certainly require financial guarantees for investments, since the entrepreneur's capital requirements will usually far exceed his own resources.

Many measures will be necessary to achieve all this. Here, too, retraining arrangements, bounties for giving up farms, and a regional employment policy are required.

How things will develop in practice depends on many factors, including financial resources and whether farmers can be made to see things in the proper light. Reform of agriculture must therefore be carried through with the co-operation of the trade organizations and along lines that will remain valid for modern farming over the next few decades.

C. The market and marketing structure

A problem which has not been mentioned yet is that of the demands which a modern marketing and processing system has to meet.

This is important because here, too, there are structural defects in many places. Modern trends have led to new situations - e.g. through the increase in transport facilities, the concentration of demand, the desire for more efficiency and more precise classification, and a change in production methods. The situation on the markets differs from product to product, so a policy for each individual field of agricultural activity is indicated here.

In some of these fields, the free play of forces has already accomplished a great deal - for instance, in the case of cereals. In the fruit and vegetable markets, governments have helped to introduce modernization, but not much has yet been achieved on the meat markets.

We should point out, though, that great differences also exist from one region to another. The policy to be conducted will be linked with the notion of producers' associations, in order to promote not only efficiency but also a balance of forces on the markets.

VIII: Inefficient solutions

A. Prices

On many sides, voices are still heard advocating drastic reduction of the support given to agriculture; this, they say, would speed up the flight from the land and make for swifter and cheaper modernization of agriculture than under the present policy.

Apart from the fact that this solution ignores the social problem, it will not produce the results claimed for it. Modernization of agriculture depends as much on investment as on increasing the size of farms.

Price reductions make investment from the farmers' own pocket impossible, and outside capital will only be attracted if its security and profitability can be guaranteed.

Consequently, such a policy may hit modern farms even harder than old-fashioned farms, where people simply tighten their belts and work a bit harder. This is the reason why a very high proportion of modern farms came to grief in the United States in the crisis of the thirties. Another result of this policy is that the most active farmers are also the first to forsake agriculture.

B. Autarky

There are still those in agriculture who believe that autarky is the solution to the farming problem. They think that shutting off the Community from imports from outside would make the Community completely self-sufficient, which would enable farmers to produce what the home market needs without the risk of structural surpluses.

The absence of competition from non-Community countries would entail higher prices and consequently a higher agricultural income. This line of thinking disregards the fact that considerable trade losses would be incurred and that the problem would be shuffled off onto home consumers and producers outside the Community to an even greater degree than at present.

After the war it was recognized that autarky prevents the expansion of world trade, and this led to the creation of GATT. The main purpose of GATT is to promote free trade throughout the world by eliminating autarky and currency discrimination. The Kennedy Round, which was organized by GATT with the aim of reducing tariffs among all the participant countries, is more widely known. It is practically impossible to return to autarky, then, since this would undo the agreements to promote trade concluded under GATT and because the Community's trading partners would react to agricultural autarky by reprisals in the industrial field.

C. Rural depopulation

Industrial concentration and the depopulation of the countryside are matters which have their problems. In certain areas it will be difficult to prevent a decline in the population. As far as possible, however, a Community policy aimed at regional industrialization should help to shape agriculture along modern lines and to create new jobs outside agriculture. This policy will at the same time encourage contacts between the various sections of the community.

IX: The Community's task

The Commission's statements have shown that it is convinced of the need for a drastic overhaul of agricultural policy. In this connection, it can point to the fact that, in 1960, it was considered necessary to use several instruments simultaneously¹ in order to assure the implementation of a harmonious policy. Only the price and market policies have been applied; and matters have gone as it was feared they would - these two instruments alone have not been enough.

The reasons why social and structural policies have fallen behind are primarily political. In the chapter on agriculture the EEC Treaty vests substantially more power in the Community's organs in matters of market and price policy. This is why work has been concentrated on the need to introduce a common market in agricultural products and in industrial products simultaneously.

Moreover, producers have long held the view that the best way to improve their situation is by charging the highest possible prices and that radical structural reform should be avoided as far as possible, with natural developments allowed to pursue their course subject to certain limitations.

Since there are major national and regional interests involved in social and structural policy, nobody is very enthusiastic at the moment about giving up any of his powers. It is by no means the intention, however, to carry through a centralized structural policy, ways and means must be worked out jointly so that each country, without losing sight of Community objectives, can take those measures which seem most appropriate and most practical.

The need for a regional development policy has already been pointed out. However, since some of these measures are outside the scope of agriculture, the member countries will have to reach a decision on the basic idea of regional development policy and on ways and means of implementing it as part of the expansion of economic union.

.../...

¹ See Proposals, Part II, sec. 9 - cited at p.3 supra.

X: The effect of a new agricultural policy in the short and longer term

If we define an objective and are prepared to act, a lot can be achieved. But there are limits; and therefore it is best not to expect too much.

For the time being, the common agricultural policy will not cost any less as a result of taking a new line. The rising trend in the cost of the present policy is so pronounced that a decline is more likely in 1984 than in 1974. Perhaps new measures will even cause costs to increase more rapidly for a while. However, once the point has been reached at which the results are evident, a gradual lightening of the burden can be expected. And this is a prospect which is entirely lacking in the present scheme of things.

Success here can promote co-operation in other fields, and failure may have serious repercussions on co-operation in other fields. Hence it is clear that the importance of a genuine common policy in agriculture extends beyond the borders of agriculture pure and simple.

Attempts to solve the problem at national level will actually constitute a step backwards. For the difficulties arising alongside a joint market policy should also be solved by joint action. Efficiency requires that the solutions striven for should have a common basis. Efforts should be made to ensure that the individual Member States do not seek different paths and thus actually distort competition. A new policy will have to be elaborated in regional terms, and that is quite a different thing from national terms.

The problems are very urgent.

For decades past, huge sums have been invested in agriculture in order to adapt it to changing conditions. We now see that the problems multiply just the same, and therefore it is necessary to start thinking in other dimensions. Radical, modern and efficient solutions can be applied better on a large scale than on a small one.
