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Interdependence Between the Agricultural and General Economic Policies of the EEC

By Professor Dr. Theodor Dams, Freiburg

The latest Brussels decisions of May 11, 1966, on agricultural finance have provided new proof for the importance of a common farming policy for the process of overall integration in the European Common Market. This makes it interesting to investigate, on the one hand, the interdependence between integration in the fields of farming and the entire Common Market economy and, on the other hand, the problem of well-balanced decisions within the common farming policy.

The EEC Treaty provides for special treatment for farming, and this has been underpinned by the six member states' agricultural enactments between 1955 and 1965. Article 38, paragraph 4 of the Treaty, for example, obliged the contracting parties to develop a common agricultural policy; however, Article 39, Paragraph 2, qualified this obligation by stating that such policies must take heed of the close connection of farming with the entire economy. This additional clause underlines the specific problems of agricultural policies in a modern industrialised community—farming policies must be fully integrated with general economic policies, and agriculture must be adjusted to a growing overall economy.

The Concept of the Agricultural Policies of the EEC

During the decade 1955 to 1965, five of the member states have enacted farming laws. The Federal Republic of Germany did this already in 1955, before the Treaty of Rome had been ratified, whilst all the others have waited as long as the EEC Commission needed to produce its proposals for a common farming policy (on June 30, 1960). Only the Netherlands did not promulgate a basic law of this type. These "agricultural basic statutes" were mainly declarations of principles, which the member states produced during the past decade, generally with the approval of all their political parties, but in spite of the rising financial contributions to the well-being of farming, their results were not fully satisfactory either to the recipients (the farmers) or to the donors (other branches of the economy, and the consumers). The purpose of the EEC Treaty to develop a common agricultural policy of full integration with the entire economy, on the other hand, offered the chance to think over once again the concept of modern farming policies within a growing overall economy.

The starting point for the discussions on these points preexisted already in Article 39, Paragraphs 1a and 1b, of the Treaty:

They prescribed

- ☐ rising productivity through a rational development of farming production;

- ☐ optimal use of production elements, notably of labour;

- ☐ an improved standard of living, especially by raising income per head of the farming population.

Later on, the EEC member states, at their meeting at Stresa in 1958, took several brave steps in further evolving this principle of redistributing essential labour in a growing overall economy and accepting it as the starting point for improving farming incomes. It "jumped over the shadows of national selfishness", which had led to pessimism regarding the economic success of changes in the farming community. The Conference came to the optimistic conclusion that structural changes must be able to allot to both labour and capital yields comparable to those possible in other sectors of the economy.

Taking this conclusion as its starting point, the EEC Commission then completed the conceptual work by the middle of 1960 and hammered out new proposals for establishing and pursuing a common farming policy. The basis of its "philosophy" is not only full integration of agriculture with the entire economy but also the view that farming policy has to be more than market and price arrangements. The common farming policy, in order to demonstrate its close connection with general economic policies, was to be built on four basic "pillars":

- ☐ foreign trade policies towards third-party countries;
- ☐ marketing and/or pricing policies in the internal Community market;
- ☐ policies on the structure of farming;
- ☐ social security in agriculture.

The creative act of the new farming policy and of general economic theory was to consist, on the one hand, in integrating every single one of the four tasks with the superior requirements of general economic policies, and on the other hand, in welding the four separate fields of progress together in a consistent farming policy.

Industrial Integration Promotes Common Farming Policies

The blueprint stage for a common farming policy had thus been completed by the middle of 1960, whilst changing it into "bricks and mortar", according to the Treaty, could be postponed to the end of the transitional period. However, when the second stage of this transition started, those member states which are vitally interested in farming exports demanded that the common agricultural policy be put into practice forthwith, in the interest of equilibrium in the Common Market. In other words: progress in the field of industrial integration made it impera-

tive to arrive at an early decision on parts of the projected farming policies. On January 14, 1962, the EEC began to lay the first building stones of a common farming policy, and its consecutive steps are well known: in the middle of January, 1962, the first market regulations were adopted; these were followed, on December 4, 1962, by the introduction of rules for competition in farming, by the basic rules for financing the common farming policies, and by the member states coordinating their structural policies on farming; late in 1963, by elaborating the market regulations, and by providing finance for the common farming policy in marketing and structural changes; on December 15, 1964, by agreement on a common grain price; and on May 11, 1966, by agreement on agricultural finance and on the time for full integration of the common agricultural market.

Integrating Farming Leads to Closer Overall Integration

Once the ring of isolation round farming policies had been broken "take-off point" seemed to have been reached for them, and their inner logic pushed them towards self-completion. Being successful mainly because national antagonisms were overcome by the provision of joint finance for common farming policies, these policies also enforced accelerated integration outside their realm, especially in the following two fields:

a) A number of decisions on farming were tied up with required changes in overall economic policies or with changes in non-farming sectors. Thus, establishment of a common grain price (in common accounting units) makes further variations of currency exchange rates virtually impossible, and it promotes harmonisation of railway and shipping freight charges for grain;

b) Financing a common farming policy and establishment of a common agricultural market were made dependent on an early introduction of the fully integrated market for industrial products (tariffs have to be cut by 5% as from July 1, 1967, when the common agricultural market will come into force, and all the remaining customs duties must be abolished by July 1, 1968).

In the two named cases, earlier conditions were reversed during the transitional period (i.e. when its second stage opened): agricultural policies now imperatively demand changes in overall economic policies, and integration of Common Market farming accelerates the creation of a fully integrated market for industrial products.

"Neuralgic" Spots in Agricultural Integration

The industrial nations of the EEC appear to fall from one extreme into the other in their farming policies: only yesterday, farming appeared still to act as a brake upon economically generally desirable decisions in all member states, whilst now it has become a prime mover of further overall European integration.

Politically, such overall integration into which the EEC is steamrollered by decisions in one sector of its economy may be politically desirable, but for a well-balanced economic policy, it has its questionable aspects, too: It cannot be gainsaid that some

decisions on farming policies operate towards an overall system of total integration but, in some cases, they may also exert an influence that unbalances the overall system. For this reason, the latest decisions taken at Brussels must be seen as a contribution to obviating possible frictions caused by changes in one sector of the economy.¹ The speediest possible completion of total integration is of paramount interest for the Community, and losses by frictions of this type can be avoided only by it.

There are two unbalancing factors, arising from a common farming policy and its decisions, which must not be overlooked:

a) There is a time lag attached to the decisions on a common farming policy; for the "Grand Design" of 1960, based on the "Four Pillars" of a common farming policy, has still remained in the blueprint stage for most of its requirements. Numerous market regulations have been worked out to an exaggerated degree of perfection, but policies on farming structure still suffer from lack of political decision, and only the first beginnings of agricultural social security have been made on the Community level. Moreover, the constructive proposals for foreign trade policies of the EEC on farm products, including support payments and international reference prices, can only be discussed effectively within GATT, if practical decisions on common prices are to form a real offer of the EEC to be negotiated;

b) Another time lag operates between decisions on farming and those on affected sectors of the overall economic policies, for some decisions on farming can become fully operative only after similar decisions have been made in the superior fields of overall economic policy. For example, there have been resolutions on coordinating policies on farming structure in the various member states, that have been made at EEC level, and on financing projects for improving farming structures from Community funds, which both underline that they must be connected with overall developments of the Community's entire economy beyond national frontiers (Article 1, and Article 15), but no practicable decisions have yet been taken in this respect at EEC level. The same is true of social security in farming.

Main Issue: Providing Finance for a Common Farming Policy

Whether agricultural policies of industrialised countries are viable cannot be seen from pious declarations about overall economic aims embodied in basic farming laws but only from the availability of sufficient funds for financing their policies. This is not only true of individual member states but, after a European Equalisation and Guarantee Fund has been set up, of the EEC as a whole.

After agricultural financing has been agreed to in Brussels on May 11, 1966, only two crucial problems are to be pointed out here:

a) How much money is available to the Fund depends unequivocally on the pricing policies of the EEC. True, also the formula for computing contributions is crucial for individual member countries, but far

¹ However, much remains still to be done in future years in the field of taking well-balanced decisions in the framework of overall economic policies.

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more important is the attitude taken towards the intended levels of farming prices, which will largely determine how much farmers grow. To attempt to keep funds as low as possible, in order to cut membership dues, whilst at the same time demanding the highest possible prices for farm produce in order to guarantee a high income to farmers, violates the logic of market conditions. Whilst accepting an improvement in farm income, overall economic interests require an examination of the question whether it would not be better to do away with heavy price support and to mobilise different funds for aiding farmers.

b) The meeting at Brussels on May 11, 1966, accepted a limitation of the moneys available for improving farming structure (cf. that part of the resolution dealing with "Equalisation"). Contrary to past practice, these funds are not to be pegged automatically to one third of overall market support (cf. the part dealing with "Orientation") but to be limited to DM 1,140 million. Advocates of a structural farming policy may well criticise this as unjustified neglect of agricultural adjustment, but seen from overall economic levels, this means something quite different: Late in 1962, the EEC Commission has been charged with coordinating structural policies of the member states on farming, but its work in this field has not progressed beyond its first beginnings. This means that there is not yet a practicable basis—connected with dismantling the distortion of competition through structural changes, and with controlling investments for improving the farming structure at EEC level with a view to an operating common market for farming

produce—for channelling funds available to the EEC sensibly (from an overall economic standpoint) into individual branches and areas of farming. One thing is uncontrovertedly true, however,—at the EEC level, coordinating of structural policies on farming must have priority over financing individual projects from Community funds. Such projects will only be viable if structural policies are based on clear thinking, and are effective. Views according to which a rising volume of the Equalisation Fund may accelerate a coordinated structural policy of member states, or even contribute basically to its success, misconstrue the logic of the overall problem: Coordination is the overriding activity (it "throws the switches" from above), and financing individual projects has to be subordinated to it ("adjustment from below").

The Aim: Geographically Varied Decisions on Investments

Adjustment of farming operations has to be varied according to geography, which means that the decisions on farming investments have also to be variable with geographical conditions. They have to be made in close connection with overall economic developments in the affected area and with a view to maintaining the equilibrium between the markets for farming produce. That is why the EEC Commission did right in underlining the significance of the geographical distribution of structural investments, when it started to coordinate structural farming policies in 1962, and it has enclosed this point of view in its annual Report on Farming Structures as an integral part. Also Article 16, Paragraph 2 b, of the EEC Financial Regulations No. 17/1964 provides for naming "Focal Areas" in Community Programmes. In such Focal Areas, the stated measures have always to get priority in their execution.—However, according to available information, the EEC Commission does not appear to be willing to follow its own prescriptions about describing geographically well-defined Focal Areas either legislatively or economically. Community programmes precisely describe the proposed measures, but the areas to which they are to be applied are only vaguely defined by generalisations. This solution is clearly unsatisfactory even to the author of the Community Programme (the EEC Commission), and it has apparently led to the writing of a specialised Community Programme for underdeveloped areas. Contrary to the precise rules of Article 16, Paragraph 2 (Measures and Areas), this introduces two completely different criteria of definition: In one case, the measures to be taken are firmly established, but the areas to which they refer are only vaguely indicated by generalisations; in the second one, the areas are chosen as points of departure, and the measure applied to them are geared to the different social and economic conditions in them.—In the interest of a close integration between the policies on farming structures and regional economic policies, unified Community Programmes are urgently needed, which fully meet the requirements of Article 16, Paragraphs 2 a and b, and the Decree No. 17/1964.

The EEC Commission has submitted to the Council of Ministers its first draft programme for medium-term economic policies in the period 1966-1970, to be used as a mandatory framework for national and Community measures. As these medium-term policy recommendations of the EEC will probably also con-

tain draft measures for a regional economic policy, now seems to be the suitable moment for embodying in them also forward-looking Community Programmes, as they would exert a favourable influence on medium-term economic policies at Community level.

Three-In-One: Coordination - Finance - Grants-in-Aid

It is impossible to use isolated concepts referring to parts of the Community for

- ☐ coordinating the structural farming policies of member states;
- ☐ financing individual projects through the Equalisation section of the European Equalisation and Guarantee Fund of Agriculture;
- ☐ developing a policy of grants-in-aid for farming, in order to make geographically varied and differentiated investments in member states and at Community level. Such work needs urgently the development of an Overall Concept, to which the three named

fields of action, with their different modes of operation and instruments, can be subordinated, and where they will be optimally coordinated with each other. This is a very urgent task indeed. Before long single improvement projects for farming structures will receive large sums from Community funds. Unless policies on farming structures are firmly coordinated, and in the absence of coordinating these again constructively with grants-in-aid to be given, a big risk may be run that woolly thinking which is rife in some member states in this field will intrude also into Community policies.

It is true that the first draft programmes of the Community offer some support for the proposed policy but, taken together, they do not provide a sufficient guarantee for agricultural investments intended to improve farming structures to help the viability of a common farm market, thus subordinating themselves to the needs of a growing overall economy, and to meeting the requirements of an overall economic policy.

Should American Investment in the Common Market Be Condemned or Encouraged?

*By Bernd Muldau, Hamburg *)*

In Europe, people are becoming increasingly anxious about the rapid spread of American investment activity over the last few years. This is particularly so in EEC countries. And indeed, over the past decade the activity of private American capital has been directed particularly towards the territory of the Common Market.

Immediately after the last war, American investment was extremely welcome all over Europe. Europe's run-down industry needed American capital to help start the growth process necessary for recovery. Now Europe has sufficient capital of its own to undertake the ever-increasing investment demanded by this continuous growth. America has served its turn—America must go.

But private US firms continue to increase their investment activity in Europe and within the Common Market. More and more American firms are penetrating the EEC. In 1964 2,290 firms and participations had already been established on EEC territory since the war and 3,070 in the whole of Europe. In 1964 US capital invested in the Common Market totalled \$ 5,398 million and the figure for Western Europe was \$ 11,973 million.¹ The expensive trend of Ame-

rican capital within the EEC is still continuing. It is not surprising, therefore, that the anxiety inside EEC is becoming more acute, particularly since American firms give preference to the so-called growth industries, i. e. chemicals, energy, electrics and motor vehicles.

Typical of the degree of anxiety is a statement by the President of the American Chamber of Commerce in Germany, Mr. Schoeppler: "We note with astonishment the expression 'colonisation' recently used in this connection."²

And indeed, European economists and politicians consider the reason for this growing resentment against American investment to be the fear that domestic industry may pass into foreign hands and the conviction that American investment activity will mean a tendency towards concentration. But is American investment amounting to 6-7 % of total investment in manufacturing industries in the Common Market really sufficient to merit such phrases as "passing into foreign hands" and "selling out domestic industry"? Just recently, it has been said that such arguments stem from political rather than economic motives: "Europe's increasing sensitivity vis-à-vis investment by US firms is primarily due to a political phenomenon and only in the second place to an economic one."³

* See: Bernd Muldau: "US-Investitionen in der EWG", soon to be published by Verlag Weltarchiv, Hamburg.

¹ All figures quoted below include a capital content corresponding to the nominal capital, i. e. for joint stock companies this is equal to the basic or foundation capital; for private companies and one-man firms to the owners' credit on capital account; for branches and works which are not independent, the basis taken is the endowment or working capital.

² See Frankfurter Allgemeine, No. 293, 17. 12. 1964.

³ Rainer Hellmann: "Amerika auf dem Europa-Markt — Die US-Investitionen im Gemeinsamen Markt", Baden-Baden 1966, p. 193.