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Limits to the Cost of the Mansholt Plan

by Gerhard Wirth, Federal Ministry of Finance, Bonn

In December 1968, the Commission of the European Communities produced a "Memorandum for the Reform of Agriculture in the EEC". In the public discussion that followed this document became known as the "Mansholt Plan", so named after Sicco Mansholt, the Commission Member responsible for the Agrarian policy of the EEC. The Commission's memorandum comes to the conclusion that the common marketing and price policy as pursued hitherto is by itself incapable of removing the fundamental difficulties with which agriculture is faced. In the opinion of the Commission, the aim must therefore be to create a new production structure until 1980.

Aims of the Mansholt Plan

The plan under the name "Farming Programme for 1980" should, briefly summarised, achieve the following objectives:

- ☐ Withdrawal from agricultural production of about 12.5 mn acres of farmland as part of a reorganisation of the production structure.
- ☐ Accelerated reduction in the number of people employed on the land; the present number of 10 mn farmers to be reduced to 5 mn.

In particular, these objectives are to be reached by a multitude of public measures in furtherance of this aim—measures which include the granting of pensions to those willing to give up farming, retraining grants, creation of jobs outside farming, investment aid for modernised agricultural enterprises, help to start producer co-operatives as well as assistance for reforestation and the creation of national parks.

Since its publication the Mansholt Plan has been the target of fierce criticism. This was only to be expected, considering that it aims to bring about within a relatively brief space of time a complete reorganisation of an important part of the national economy. For the purposes of the present examination, it is proposed to leave out of account for once the questions of social and farming policy which more often than not are in the forefront of the debate. The intention is rather to

attempt to have a closer look at the financial implications of the memorandum, that is to examine the question of cost and how to raise the funds required¹.

Assessment of Costs

It is extraordinarily difficult critically to assess the costs involved, for the memorandum contains only very few indications in this respect.

All that can be done therefore is to establish globally the order of magnitude of the financial burden likely to arise and then to see if the sum involved is within the financial means of the member states.

According to the indications contained in the memorandum and some additional hints given by the Commission, the costs that would have to be paid for out of public funds are as shown by Table 1².

Table 1
The Costs of the Mansholt Plan

(in mn Reckoning Units (RU), each representing 1 US\$, gold)

| | |
|---|-------|
| 1. Promotion of rural exodus | 1,050 |
| 2. Retraining | 480 |
| 3. Conversion of farmland to other uses | 460 |
| 4. Creation of alternative jobs | 2,000 |
| 5. Improvements in the production structure | 740 |
| 6. Improvements in marketing methods | 250 |
| Total | 4,980 |

The above Table shows therefore an average annual expenditure of roughly 5,000 mn RU for a period of ten years. A closer examination of these figures will not be possible until all the cost elements involved in each of the projected measures are published. But even now it is reasonable to ask oneself whether the contemplated public expenditure on aid will in fact suffice

¹ It is also worth mentioning that the Commission has meanwhile tabled its proposals for establishing "equilibrium in the agrarian markets". These proposals contain for the initial period until 1975 a slightly reduced structural programme. In view of the fact, however, that the memorandum of the Commission is to remain the basis for discussion and that during the initial period the measures can in any case be carried out only on a restricted scale, the above-mentioned slight modifications need not concern us here.

² See H. Hoecherl, "Die Welt zwischen Hunger und Überfluß", Stuttgart 1969, page 177.

to reach the desired objective or whether the financial incentives will not have to be considerably larger.

Effectiveness of the Financial Incentives

Let us take for example the projected annual equalisation of incomes payments to farm managers aged between 55 and 60. A farmer who is to give up farming at the age of 55 is to receive 660 RU per annum while a 60 year-old farmer is to have 1000 RU annually. It is reasonable to ask whether this is a sufficient incentive to induce people to retire from farming. Or what about the incentives designed to promote the conversion of farmland to other rational uses? After all, the measures intended to bring about a reduction in output will prove to be effective only to the extent to which the areas released through the withdrawal of the farmers cultivating them are not taken over by other producers. To prevent this happening, the Commission intends first and foremost to grant reforestation aid, amounting to 80 p.c. of the total cost. Here too, it may be doubted whether the financial inducement is strong enough to achieve the desired end. The two examples illustrate the financial risks on the cost-side involved in the measures planned by the Commission. Most of its other measures would seem to be subject to similar risks. On the one hand, the Commission's professed intention to impose a structural upheaval on agriculture is bound to strengthen the existing natural resistance and psychological obstacles to a change which for the farming population means giving up their traditional pursuits. On the other hand—for compulsion must be ruled out—there is nothing but the financial inducements to overcome these forces of resistance. If therefore it should become clear that to achieve certain objectives the proposed incentives are inadequate, there is nothing for it but to increase the aid so that the desired end may still be achieved. Once the operation has started, refusal to grant more money would simply mean that one is left with a torso. Because of the interdependence of all the measures proposed in the Mansholt Plan, failure on the part of one of them to materialise would jeopardise the Commission's entire scheme. It follows that once one has said "yes" to the aid scheme proposed by the Plan, there is no escaping the conclusion that the ultimate costs may well exceed the original estimates.

Additional Costs in Creating New Employment

It may be assumed that the Commission, in estimating the costs of its scheme, has tended to err rather on the low side in order to avoid that

those responsible for the finances of the member states do not reject the plan out of hand for reasons of cost. What adds force to this argument is the fact that the costs likely to be incurred through the creation of alternative employment for redundant farmers and through the setting up of retraining facilities are shown separately in the memorandum. Thus the Commission only speaks of a total cost of 2,500 mn RU annually. But as the regional and socio-political measures designed to create new jobs must go hand in hand with the freeing of farmland and labour—the Commission shares this opinion—the costs incurred in these fields must of necessity be regarded as an integral part of the total expenditure. It would be a grave error if only half of the actual costs involved in the Mansholt Plan are taken into consideration when it comes to distributing them among the budgets of the states concerned.

In dealing with the question of how to finance the measures proposed by the Mansholt Plan, that is how to obtain the necessary funds, it is first of all necessary to have a look at the trend of expenditure so far involved in the Common Market's agricultural policy. In the accounting periods from 1962/63 to 1969/70, the European Equalisation and Guarantee Fund spent on agriculture the sums shown in Table 2.

Table 2
Payments of the European Equalisation and Guarantee Fund
(in millions of Reckoning Units)

| | |
|---------------------|---------|
| 1962/63 | 37.7 |
| 1963/64 | 67.6 |
| 1964/65 | 214.2 |
| 1965/66 | 320.0 |
| 1966/67 | 493.7 |
| 1967/68 | 1,527.5 |
| 1968/69 | 2,457.0 |
| 1969/70 (estimated) | 3,231.2 |

Alarming Rise in Expenditure

These expenditures are essentially incurred in making equalisation payments to exporters of farm produce to third countries as well as payments to cover the cost of market interventions inside the EEC-area and, finally, in facilitating the utilisation of surplus production. The huge increase in the volume of the Agrarian Fund in the course of recent years constitutes a very considerable burden for the budgets of the member states, for they have to contribute to the Fund according to a certain key. Nor will there be any actual alleviation of these burdens once the EEC receives as its own revenue the contribution from member states (skimming off levies, import duties and part of the value added

tax) in accordance with the decision taken at the end of December last by the Ministerial Council in Brussels. Thus in 1969 the Federal Republic of Germany spent already 35 p.c. of its total agricultural budget on stabilising food markets, whereas in 1966 these expenditures amounted to no more than about 10 p.c.³ These examples illustrate the ever narrowing scope within which to undertake the urgently needed structural reform in the member states.

In view of this state of affairs, it will be extraordinarily difficult to obtain the financial resources needed to realise the Mansholt Plan. The Commission thinks it can make the financial problem less acute by substituting the cost of the "Farm Programme 1980" for the sums which the member states themselves spend on the structure of the national agriculture and which in 1969 are estimated to have amounted to 2,200 mn RU. A realistic appraisal of the facts as they are make it however unlikely that this idea will ever be realised. For a major part of the costs hitherto borne nationally will have to continue being defrayed independently of the measures proposed by the Mansholt Plan. (In the Federal Republic this means mainly the expenditure on redistribution of land, road building and irrigation.) In 1967 for instance, only about 29 p.c. of the measures taken by member states for structural purposes could have been compared with those of the Mansholt Plan⁴. This means that from the 2,200 mn RU spent by the member states for structural purposes in 1969, about 30 p.c.—i.e. 700 mn RU—would have been transferable to the measures of the Mansholt programme. Accordingly, the member states would have to reckon with the following extra burdens for structural improvements:

| | |
|---|-------|
| Expenditure under the Plan (without creation of alternative employment) | 3,000 |
| of this hitherto paid for by member states | 700 |
| Additional funds required | 2,300 |

³ See H. Hoecherl, already cited, page 178.

⁴ See also G. Schmitt, and others: "Zur Neuorientierung der Agrarpolitik", in "Agrarwirtschaft", special number 33, Hannover 1969, page 71.

Although in the above comparison no allowance is made for the cost involved in creating alternative employment, the cost of realising the Mansholt Plan proposals would be twice as much as the member states have hitherto been spending on structural improvements. Considering the huge expenditures that face member states in future, particularly in the fields of science, research and education, they are hardly likely to agree to such an increase, if they want to pursue a budget policy which is sound and in line with economic trends.

The Problem of Financing

The problem of financing the scheme is made much more difficult by the Commission's demand that the proposed structural measures be financed jointly to the extent of, as a rule, 50 p.c. At present the competence of Brussels in the structural sector is limited to a coordinating function and its powers to finance individual projects are restricted to an upper limit of 285 mn RU per annum. The Ministerial Council has also limited structural expenditures to 285 mn RU from 1972 onwards during its session on the 5th and 6th of February 1970. However, this sum can be increased by Council's decision.

There are good reasons for keeping to this limit for the time being, for:

□ Even now the EEC budget is to the extent of about 90 p.c. determined by agriculture. A joint financing of the Mansholt Plan would still further increase this one-sided emphasis on one type of expenditure. Such an imbalance at the expense of other promising tasks facing an economic union would be sure to affect unfavourably the future development of EEC.

□ The EEC's agrarian policy has so far failed to achieve the desired objectives of establishing a balanced market and of assuring adequate incomes to farmers. Instead, it has resulted in rapid rises in farm surpluses and financial burdens. Before therefore a further large chunk of expenditure can be contemplated, it is essential to make sure that the amount spent on market regulation is firmly kept within limits. True, the

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Commission reckons that the structural measures which it proposes will cause the annual cost of market interventions to decline to 750 mn RU by 1980. There are however no concrete grounds for such an assumption. On the contrary, it is more likely—and developments in the USA tend to support such an assumption—that the larger production units which the Commission is aiming at will result in yet further increases in output. In such a case, there will still be large surpluses in 1980, requiring finance, unless expenditure on purposes of regulating the market is kept within limits.

☐ Financing structural policy out of a common pool entails a risk, if the Commission cannot effectively supervise its implementation, that the member states, in pursuing their own farming policy, may well be tempted to maximise their share in the expenditure financed by the pool. The result would be an uncontrolled rise in expenditure to relatively little effect.

☐ In the present state of political and economic integration, the social, structural, economic and political circumstances still differ widely from

member state to member state, requiring different measures to deal with them. Consequently also the financing will have to be done individually and under the national responsibility of the member states.

Improvements in Individual Market Regulations

The afore-mentioned considerations lead to the conclusion that the prospects of implementing the "Farming Programme for 1980" are clearly limited for reason of both cost and finance. The most urgent task remains therefore to widen the financial scope for carrying out the necessary structural changes by more incisive measures to regulate markets. As for additional structural measures, particularly those concerned with the creation of alternative employment, these must be left to the individual member states, for in the present state of political and economic integration they alone can carry them out and finance them. This is the only way of making sure that structural, regional and political variations are taken into account and that the money is therefore well spent.

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