

Priebe, Hermann

Article — Digitized Version

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Intereconomics

Suggested Citation: Priebe, Hermann (1977) : Twenty years of agricultural policy review and forecast, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 12, Iss. 3/4, pp. 65-72, <https://doi.org/10.1007/BF02928695>

This Version is available at:

<https://hdl.handle.net/10419/139452>

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Twenty Years of Agricultural Policy Review and Forecast

by Hermann Priebe, Frankfurt *

In a lecture on the occasion of the twentieth anniversary of his Institute for Rural Structural Research in Frankfurt Professor Dr Hermann Priebe, the agronomist and economist, subjected the agricultural policy of the EC to a critical review¹. For the reform of the Common Agricultural Policy, which is socially and financially unsustainable in its present form, he proposed changes which make economic sense and are not politically unattainable.

The problems of agricultural policy have undergone a fundamental transformation in these past twenty years. Their range has widened at the same time. Today they go far beyond the issues of agricultural and nutritional economics and touch upon questions of social policy, environmental problems, the structure of regional settlement and the external relations of the European Community with the rest of the world. In the early days of the EEC the agricultural policy was regarded as a pace-maker but in the meantime it has become a *field of conflict*. Hemmed in by the exigencies of the created agricultural system and the higher-ranking implications of the Community's general and economic policies, the agricultural situation seems to be almost beyond redress at present.

We are making an attempt here

- ☐ to analyse the problems facing us today on the basis of a review of the last twenty years,
- ☐ to inquire into the *prospects* of future development if the present agricultural policy is continued, and
- ☐ to derive from the disquieting projections ideas about the aims of a *reorientation* of the agricultural policy and to submit concrete proposals for discussion.

Outlines of a Major Structural Transformation

Our Institute for Rural Structural Research was established twenty years ago during a phase of *sweeping changes in agricultural policy*: The then Federal Minister of Food, Agriculture and Forestry, Lübke, presented the first programme for the improvement of the structure of agriculture

which formed a new focal point for agricultural policy. The promulgation of the Agriculture Act was followed by the publication of the first Green Report. The Treaty of Rome was signed. The gates of the EEC were opening before us.

Under the influence of the changes in the economy and in society, of the transformation of agricultural technology and the integration in a larger economic area *agriculture* has undergone *greater structural alterations than ever before* in the twenty years which have elapsed since:

- ☐ The number of agricultural *enterprises* has declined by 45 p.c., from 1,620,000 (in 1960) to 890,000 (in 1976).
- ☐ The number of *persons employed* in agriculture has fallen by over 50 p.c., from 3,580,000 (in 1957–61) to 1,710,000 (in 1975). By 1970 the agricultural population had declined to 4 p.c. of the total population, and in 1974/75 no more than 568,000 full-time males were left in agricultural occupations.
- ☐ The *value added* by agriculture has risen in absolute terms, from DM 11.4 bn (in 1956) to nearly DM 21 bn (in 1975/76), but it has declined in relation to the net domestic product, from 7.7 to less than 2.5 p.c.
- ☐ The *labour productivity* in agriculture — measured in terms of operational revenue per full-time worker on sample farms above the limit of Art. 4 of the Agriculture Act — has risen by over 900 p.c., from DM 2,900 (First Green Report for the 1954/55 agricultural year) to nearly DM 27,000 (Agricultural Report for 1975/76).

Different Effects

The *effects* of this structural transformation show in a patchwork of light and dark. First, a few *positive aspects*:

- ☐ The independently operating farming industry — with the family farm as the predominant unit —

* Frankfurt University.

¹ The lecture by Professor Dr Hermann Priebe has been published, together with another lecture on the same subject and the following discussion, in: "Innere Kolonisation", the journal of Gesellschaft zur Förderung der inneren Kolonisation (Society for the Promotion of Internal Colonization), Bonn.

has given proof of admirable *adaptability and efficiency*. There have been no supply bottlenecks for the 260 mn West Europeans served by the Common Agricultural Market, in striking difference to the large units characteristic of Soviet agriculture which still employs 25 p.c. of the work-force in the USSR, uses six times as much land per head of population, and is nevertheless unable to cover the — still rather low — per-capita consumption at all times without fail.

□ The initial *apprehensions* about the Common Market in the German farming industry have proved unfounded. Volume and price increases have more than overcompensated for the temporary decline of grain prices. Even at constant 1963/64 prices the production value has risen from about DM 30 bn to nearly DM 39 bn (1974/75).

□ The problem of the *incomes disparity* between agriculture and industry has been *completely solved*: In the 22 years since the first Green Report the working incomes in agriculture have risen at an average rate of 12–13 p.c. and comparable industrial wages by 9–10 p.c. The present operating revenue of DM 26,800 per full-time worker is considerably higher than the industrial counterpart of about DM 23,300. Compared with an industrial net wage of about DM 16,800 only², agricultural incomes show up very well, especially if housing and receipts in kind are taken into account.

□ Agriculture has made important contributions to overall economic growth and the economic advancement of rural regions by *releasing between 1 and 2 mn workers*.

A high price was however paid for these positive results. It must not be overlooked that the *agricultural policy imposes mounting burdens*:

□ *Market disequilibria* and structural surpluses are causing increasing financial burdens and leading to misallocation of capital and labour.

□ Rising *agricultural prices* are a burden on the consumer and go against the stabilization policy.

□ The increasing *agricultural production* hampers the external economic relations, disrupts the world markets and curtails the development opportunities of many Third World countries.

□ A greater *incomes disparity within agriculture* has emerged since it no longer lags behind industry, and endangers many rural regions.

□ The agricultural policy has become an alien body in the market economy and a cause of *increasing conflicts* in European integration.

All in all, the problems now present themselves in an *inverse form*: The fears for agriculture at

the inception of the Common Market have been superseded by mounting general economic and political burdens as a result of the agricultural policy.

What Next?

All considerations of the future must be preceded by an examination of the *causes of the mistaken developments* in the past which were due to the mode of operation, rather than the concept, of the EEC market order system. The system itself is economically by and large neutral. The crucial element was the one-sided *price orientation* to farmers' incomes, instead of balanced markets, and the combination of high prices with unlimited sales guarantees. Traditional ideas prevailed. As a result, the *production reserves*, technological progress and the farmers' business acumen seem to have been underrated.

An additional factor was the *partiality of the structural policy* which is still overshadowed by Mansholt's erroneous ideas. Through investment subsidization it is in practice leading to an enlargement of production capacities and thereby aggravating the surplus situation.

The harmful developments are a *consequence of the agricultural policy*. They were magnified by diverging economic and monetary developments in the individual member states but not occasioned by them. From this follows that further aggravations can only be avoided through changes in the agricultural policy.

Nevertheless most efforts have so far been aimed at *continuing the previous policy*. At best some thought is being given to minor palliatives like producers' contributions and bonuses for withholding produce from the market. Exceptional events may intervene, it is hoped in some quarters. However, since neither the fluctuations in the world market nor the great drought nor all the efforts of recent years have wrought a change, it must be increasingly clear that there are limits to the agricultural policy pursued until now.

It is certainly not possible to present a precise *projection for the next twenty years*. Any attempt at a status quo forecast is bound to lead to fanciful results because we cannot possibly bring all the changing internal and external factors with a bearing on future developments into the picture. An extrapolation can nevertheless assist in recognizing the development trends and necessary alterations. This kind of presentation is nowadays known as a *scenario*. The underlying assumption of a continuation of the present agricultural policy and development trends leads to fantastic results:

□ Either a rise in the agricultural *production volume* by 75 p.c. — and this while demand is stagnant or even recessive,

² Net income of a married employee with two children receiving a gross wage of DM 23,300.

□ or possible attainment of the present volume of production by 150,000 operatives in 100,000 "developable" full-time agricultural enterprises on not much more than half the present *agricultural land*.

These are the alternatives, which does not mean that either variant will materialize. They are merely pointed out to show that they *must not* materialize.

Disquieting Alternatives

Two development alternatives exist in practice, both involving incalculable consequences:

□ The *economic losses* ensuing from further surplus accumulation, especially the increasing financial burdens. It would be foolhardy even to attempt to forecast their build-up for twenty years ahead. But there can be no doubt that the financial *tolerance limits* would be reached long before the end of this period. Martin Schmidt³ has pointed out that the market order outlays will increase at a rate of 20 p.c. a year if the present policy is continued: in no more than four years they would double.

□ The *social losses* involved in a continuation of the present *structural policy* which provides no support for most of the farmers in business today. They are being squeezed out. The result is depopulation of the rural areas and increased damage to the environment due to more intensive working methods on the remaining farms.

Forecasts pointing in this direction may justifiably be brushed aside as illusory. But the belief in the possibility of *continuing with the present agricultural policy* may be thought to be equally illusory.

For a closer examination of the details shows the indicated *development trends not to be entirely unrealistic*:

The *production value* of agriculture has been rising by 2.8 p.c. a year (at constant prices) since 1964/65 and the production trend does not foreshadow future limitations. The average grain yields are rising. So is the milk output per cow, and even the drought did no more than slow down the output increase. New biological developments or synthetic products, which have been suggested by Gunther Thiele and others, could speed up progress and reduce the demand for agricultural land further.

As regards the *development of the market*, the decrease of the population by four to five millions will even accentuate the stagnation of demand. Per-capita consumption is mostly close to saturation point. There exists a certain demand elasticity for foods of high quality and consumer appeal

but this is of little influence on the market for basic foodstuffs sold in large quantities. While EC prices stay high, the world market offers no opportunities for an enlargement of the commercial market for foodstuffs. It is more likely that outside pressure to open the EC markets to agricultural produce from the rest of the world will have an effect.

A process of contraction in agriculture doing away with part of the lands and farms currently in use is thus on various grounds more likely to occur than a further increase in outputs over and above market requirements. In this respect we may make the *following assumptions*:

□ The present *productive output* could be obtained on about 7 mn hectares of land if the average yield per hectare were to rise — at constant prices — from DM 3,846 (in 1974/75) to DM 6,730 (in 1994/95). This seems perfectly feasible in the light of the long-term rates of growth, the more so as this kind of yield is already being attained by the leaders in the favourably placed farming zones where production would be concentrated.

□ If the contraction process continues at the present rate of 5.4 p.c. a year, the number of workers with agricultural pursuits as their main occupation would decline from 727,000 (in 1974) to 212,000 full-timers twenty years later. With unemployment as at present this seems rather unlikely. As generation follows generation, this development could however occur without any significant exodus from agriculture: in 1972 there were only 149,000 full-time adult males left in agriculture apart from the wage-earners in the 24–35 years age-group; besides, there were 678,000 children under 14 years of age many of whom are likely to pass through the senior school into non-agricultural career training.

□ It would thus seem to be not entirely unrealistic to look forward to a total of 100,000 *farm enterprises* averaging 60–70 hectares run by full-time farmers and providing full-time work for 150,000–200,000 persons.

Economic and Social Losses

This assumption is however based on a continuation of the present structural policy which favours the larger full-time farm enterprises exclusively. A development of this kind would involve *immeasurable social costs*. For one thing, the intensification of production in favourable farming areas would entail *increasing detriment to the environment* through soil exhaustion and chemization, higher energy consumption, immissions,

³ Martin Schmidt-Gellersen, member of the Bundestag: Die Brüsseler Agrarmilliarden begrenzen (Brussels must stop spending billions on agriculture), in: Frankfurter Allgemeine Zeitung, Nov. 22, 1976.

herbicides, antibiotics, etc. For another, agriculture would succumb in the peripheral and *economically weak regions* in particular. There would be a further loss of economic vigour, the rural environment would be neglected, and this would lessen the area's value for housing and recreation. The *ecological equilibrium* is thus put at risk by an excess of chemical substances as used in intensive farming methods, on the one hand, and the negative repercussions of land wastage and landscape degradation and the consequent disturbance of the organic cycle in flora and fauna, on the other. These effects must not be underrated.

The *social structure of the rural areas* would be fundamentally upset and the property distribution would be impaired by the dispersion of what has hitherto been the nucleus of the rural population, the smallholders with agricultural pursuits as a part-time occupation. Where this would lead can easily be imagined: There would be a small number of large farmers – fewer than there are postmen though certainly more prosperous – but they would be socially out of touch, and their affairs would politically be of little interest to other people. This cannot be a desirable objective even for the Farmers' Association. In twenty years' time people may well be grateful to anybody prepared to till the land at least as a sideline!

The two alternatives are certainly not realistic in the extreme form in which they have been presented. Agriculture could for some time carry on along a middle course, and would in doing so cause great economic and social losses everywhere. To prevent this happening or at least lessen the harm done, a change must be worked in *agricultural policy: what is ultimately unavoidable must be done as soon as possible*. This means in practice that a third solution must be sought.

Aims of a Reorientation

Fortunately the Federal Ministry of Food, Agriculture and Forestry has already drawn up a broad *list of objectives of modern agricultural policy* in the Agricultural Reports for recent years. Conflicts between aims and means are of course in practice unavoidable. To strike the right balance between the various objectives will certainly remain a major problem of future agricultural policy.

The third solution of a *more balanced market and structure development* calls for major shifts of emphasis towards

□ orientation of agricultural outputs by market criteria and employment of capital and labour in accordance with requirements,

□ regard for the general economic and social tasks of agriculture, i.e. in practice, its coordination with the regional policy, utilization of the natural energies and the land capital, abatement of the ill-effects on the environment and more social justice in income and property distribution.

These objectives are to some extent interdependent and require a *close conjunction of market and structural policies*. Formulated in general terms, they certainly attract wide-spread approbation. But few people may realise that the agricultural policy pursued hitherto has had the opposite effect in many fields.

Extra Costs: An Example

An example from the milk sector shows how several coincident measures – each in itself well-intended – start off a vicious circle which in the end benefits no one. Faced with a growing butter mountain, it was decided in Brussels a few years ago to *raise the intervention price for skimmed milk powder*. The former price relation of milk fat to protein was (according to Roderich Plate) gradually changed from 87:13 (in 1957/58) to 53:47 (in 1974/75). The tendency towards higher milk outputs has been greatly strengthened since by a sharp rise in milk producer prices, from DM 0.40 in the sixties to nearly DM 0.60.

Investments for the modernization of cowsheds and *increasing cow herds are being subsidized* in the context of the EC's structural guidelines, which operates as an additional incentive to increase milk outputs. The *merger of dairies* which was subsidized as part of the measures to improve the marketing structure served the primary aim of operational economies but had the effect of extending the collection areas, adding to the transport volume and incidentally making the previously customary return of skim milk to the farmers more difficult and costly. The *feeding of skim milk to animals* was thus, for a variety of reasons, cut down severely, to barely 15 p.c., and the production of skimmed milk powder rose correspondingly and even more strongly because more milk was produced (15 mn tons in 1960, 25 mn tons in 1970) and the consumption of dairy products declined. The annual *powdered milk production* increased from 0.5 mn tons (in 1960–62) to 2.2 mn tons (in 1973–75), i.e. by 340 p.c.

With the *intervention price held at DM 318* per quintal of 100 kilograms the price of skimmed milk powder was reduced by the Conditional Guarantee scheme to about DM 110 per quintal. When feeding milk to animals, the farmer puts back the liquid which was extracted from the milk at a high cost in energy to make the powder.

For exports to third countries the *price* of the milk powder is *reduced* to something like DM 50, which is about 16 p.c. of the cost price. The cost of the dehydration process is DM 0.05–0.06 per litre – which is roughly equivalent to the feed value of the skimmed milk – owing, in part, to the big *energy input*. The farmer may meanwhile achieve a small *saving in energy* for heating through subsidized thermal insulation of his dwelling-house while at the same time perhaps looking out on grasslands going to waste because their *natural food energies are left unused*. His energy balance is unlikely to be in surplus.

For the national economy the balance is certainly negative: Shredded soy beans, which have at least the same feed value, cost DM 50–60 per quintal, as compared with the DM 318 for powdered skimmed milk. The loss to the economy falls on the public budget together with the cost of administration, storage, denaturation, etc. Nobody knows what is to happen next, for the preference in the world market is for shredded soy beans when skimmed milk powder is on offer at DM 50. A tax on fats – which the Federal Government is rightly rejecting – would not alter the situation fundamentally.

The inventive genius of the EC Commission and the conflict of interests in the Council of Ministers have thus led step by step into a *labyrinth of agricultural policy measures* which cancel each other out in part and involve heavy costs. The sum of DM 22.4 bn earmarked for market order expenditure in 1977 will probably prove insufficient. Most farmers would presumably be better off if certain sums reached them *directly and not by a detour*.

An End to Misconceptions

There are certain misconceptions which have to be cleared away before a discussion about new solutions in agricultural policy can begin.

□ The *rate of increase of agricultural prices* has not been lower but of late indeed higher than that of industrial prices. From 1970 to 1976 the index of agricultural prices rose by about 50 p.c. and industrial products and the cost of living by 40 p.c. A marked increase in agricultural prices causes economic losses over and above the cost falling on the consumer. In the lower and medium-range income-groups the *expenditure on food* accounts for 26–32 p.c. of all private spending for consumption. When real incomes stagnate, higher outlays on food must reduce the savings ratio or the demand for other consumer goods and thereby exercise a negative influence on capital formation, employment, growth and tax revenues. Subsidized agricultural exports bring about similar effects since they reduce the

export opportunities of other countries and thereby also the opportunities for exports from the Federal Republic to these countries.

□ The years of rapid *economic growth* when heavy spending for the benefit of agriculture by the consumer and out of public budgets did not make itself felt greatly because of the high overall growth rates are over whatever happens. Agriculture must now make its contribution to the “consolidation” (Helmut Schmidt) and recognize the fact that the expenditure for the agricultural policy is coming into conflict with the fiscal needs for social security payments and programmes against unemployment and in support of the middle class and other groups.

□ The general argument that the *financial cost* of the agricultural policy would be no more than 0.4 p.c. of the entire national product of the EC is illogical: Agriculture is a sector of the general economy which must – like all the others – produce and not merely consume a part of the national product.

□ It is wrong to equate *wage increases and agricultural price rises*. Any increase in agricultural prices will swell farm incomes two- or threefold, depending upon the rise in productivity. This is part of the explanation for the overproportional increase of the incomes from farming in recent years. There is one other point which is often overlooked: 35 p.c. of the *means of production* are covered by market orders; their prices go up automatically whenever a producer price is raised, providing thereby an argument for new claims for higher prices.

□ It is wrong to think that high agricultural prices help to *keep structurally weak farms in existence*. On the contrary, they tend to throw up a surplus for favourably located farms and increase their income advantage over farms with an adverse production base. Since the old problem of incomes disparity in relation to other economic sectors has by now been resolved, it is all the more urgent that the *internal and regional incomes differentials* should be reduced. This cannot be done by altering the prices but only through income transfers.

□ It is wrong to believe that the present agricultural policy ensures our *national self-sufficiency in foods*. The full-time farmers who are assisted for reasons of structural policy need up to ten times as much energy per food calorie⁴ as is used in traditional farm-work which returns the expended physical energy several times over in the form of produce. The technological changes cannot be reversed. That goes without saying. But we should as a matter of principle give pref-

⁴ Günter Lehmann, Department for Analytical and Biological Chemistry at the University of Saarbrücken.

erence to production methods which involve a small *energy input*. To give an example: Hot-air drying of green fodder yields only 0.3 unit by way of return for each unit of energy used, against 2.4 when left to dry on the ground, 3.2 by pasture and 4.0 by maize ensilage⁵. To leave grasslands unused is in this sense a wastage of energy while extensive production methods lessen the need for energy and preserve the natural productive capital of our soils as the most important basis of national self-sufficiency in food.

A New Concept Needed

To start with new solutions can only be suggested in broad outline. Much *work of a conceptual nature* has still to be done on them. They should be considered and discussed first for the Federal Republic and later encompass other EC countries as well. That the *achieved integration must be preserved* is of course a *conditio sine qua non*. What is needed is therefore not so much an alteration of the system as a complementation of the agricultural policy and the restoration of its basic principles. The objective is to retain the common external protection so as to ensure preference for the home product and adequate supplies and to return to completely free exchanges within the Community through reduction of the monetary compensatory amounts.

It is clear from all the experience that the *policy of influencing incomes through the prices* which has been pursued until now is a major cause of the imbalances. The dual function of the price as a means of safeguarding incomes and regulating supply and demand is bound, when combined with sales guarantees, to give rise to conflicts if the price is determined by political decisions and not by market forces. Too much is demanded from the politicians in this respect. They cannot act in the place of the market forces. *Complementary elements of incomes policy* must therefore be evolved in order to divest the prices of their income-determining function and to facilitate their orientation by the objective of market equilibrium.

In practice this involves the creation of a *combined system of incomes policy* in which the incomes are

☐ as far as possible the result of fair market prices and

☐ as far as necessary corrected by income grants with a neutral effect on production.

New solutions raise many questions and naturally involve *risks*. These however weigh less heavily than the *wastage of resources on surpluses in the past* and the immeasurable social cost of the structural development to date.

The *distribution of income grants* is a *cardinal problem*. An examination of all the possibilities discussed so far shows clearly that the *cultivated area* is to be preferred as a criterion for income grants. It would make their neutral effect on production certain; they could be apportioned according to objective criteria without a great administrative effort (e.g. revaluation compensation); and there would be no need to fear that enterprise and initiative will be stifled. Grants confined to certain groups of persons or income levels would run counter to the performance principle and the basic tenets of our economic order.

The different effects on the volume of production are decisive in any comparison of prices and grants. If incomes are raised through the prices, the farmer must reach a certain volume of production. If grants are made on an area basis, they reach him *directly without generating quantitative effects*: the input factor "land" is made cheaper, and extensive methods of production are encouraged. It will be of crucial importance whether the *traditional view that intensive land utilization is the ideal* can be overcome. If so, it would make a reversal of the structural trend possible, and this could be bracketed with several detail objectives:

☐ Development of *extensive production methods* so as to avert land fallowness and worse detriment to the environment. Equally, it would help to maintain the capital value of the land as a national economic reserve safeguarding the food basis. For this purpose income grants should be conditional on a certain minimum of land cultivationwork being carried out.

☐ To make *full use of the natural energies* it must first of all be made clear that agriculture has to generate energies and should consume less energy. The importance in this sense of the natural energy carriers — the grasslands, the farm-produced fertilizers including the straw which has about one-third the energy of the calories of a grain crop — must be appreciated. No longer must farmers think only of ridding themselves of what they do not need. Production techniques for the utilization and creation of energy sources must be developed in cooperation with scientists in various disciplines. A question to be examined at the same time is whether certain subsidies do not set false price signals for the use of outside energy sources.

A reorientation of the *structural agricultural policy* must obviously be considered in this context. The aim of structural improvements should no longer be to enlarge the production capacities and there-

⁵ Ulrich Weilmann, Grünland-Alternativen (Alternatives to grasslands), in: AVA special issue No. 49, 1974.

by in effect intensify the production but rather to *change over to extensive methods of land cultivation*. We must no longer think so much of family entails and full-time farming but give all socio-economic forms their due. In this sense it is greatly to be welcomed that Federal Minister Ertl is trying to extend the assistance to part-time agricultural pursuits. We may well soon be grateful to people who are ready to look after the land and landscape in certain regions even if only on a part-time basis.

The *rural areas capable of development* rather than the individual farms should be the target for *structural improvements*. Regional policy has a complementary role to play by creating non-agricultural jobs and improving the economic vigour of the area. Decisive for its success is that *people continue to find life in a rural area attractive*. All experience shows that housing and leisure facilities, the distribution of property rights and environmental conditions are by now crucial factors for the location of economic enterprises and the choice of domicile.

These reflections have a bearing on any *differentiation of the income grants for objectives of structural policy*. The programme for the hill farmers may be regarded as a first step in the right direction. Not only would differentiation in the light of natural locational conditions help to improve the incomes distribution within the farming industry but it would make it possible to recompense agriculture for its services to the community by improving the environment.

The *financial scope for income grants* is determined by the availability of funds for the promotion of agriculture in general — apart from the expenditure for purposes of social policy. The *market order appropriations* are of course of the greatest interest. Whether they can be reduced or in part diverted to the income grants will depend on the success of whatever measures are taken to moderate the trend towards intensification and to restore the market equilibrium.

Economies for the public budgets could go with advantages for agriculture. It is difficult to predict what real benefit accrues to farmers from market order appropriations. Many of these allocations are of no benefit to them. The farming industry has a special interest in easily accessible direct grants. As for the *relationship between prices and grants*, it may be assumed that at the present levels an area grant of DM 100 per hectare (sample farms in the Agricultural Report for 1976) would raise incomes by 7–8 p.c., i.e. by as much as a price rise of 2.5–3 p.c. The grants should be fixed with reference to farm incomes and not production levels.

The difficulties in the way of a reorientation of agricultural policy in the Community must certainly not be underrated. A question to be examined in this context is whether the *special interests of a few member states* could not be served better in some other way.

Problems at the EC Level

Let us deal first with the supposition that *French membership of the EC* rests on the present agricultural policy. In fact the economic exchanges in the Community are freer and more extensive in other spheres. France is exporting almost four times as many industrial goods to other EC countries as agricultural products and unlikely to put these so much larger industrial exports at risk. Besides, it is not suggested that France should relinquish the Common Agricultural Policy but at most that it should agree to certain amendments and supplementary arrangements which may even be of advantage to its problem areas.

Possible *changes in intra-European financial flows* must however receive attention in the context of a reorientation of agricultural policy. This applies equally to those issuing from the agricultural fund and those resulting from goods exchanges with which the compensatory payments are connected. The cost of the so-called *monetary compensatory amounts* or Currency Conversion Compensation, respectively, arising in the intra-Community agricultural trade is estimated for 1977 at DM 4–5 bn as a minimum. Widely differing interests are involved in this matter. Large agricultural exporters like France derive advantages. So do strong-currency countries like the Federal Republic. In Italy, on the other hand, cheaper agricultural imports are causing trouble for the balance of payments and for the farming industry. Great Britain is in a particularly advantageous position. The British agricultural prices have not been adjusted to the devalued currency, and the cost of the large food imports into Great Britain is reduced by the monetary compensatory amounts by about 40 p.c. The country is thus in effect receiving a consumption subsidy which is currently estimated at several billion DM annually.

The agricultural policy thus provides in a way a kind of *balance of payments offsets* so that the *compensatory payments* must definitely be taken into account in any changes. The compensatory payments could perhaps be made in the ambit of regional policy. It may also be asked whether the special interests of French agriculture which correspond largely to the backwardness of certain regions would not be served better by direct income grants to farmers than by the present price policy. There may also be a case for making

the financial transfers within the Community overt and intelligible, the more so as the financial flows under the guise of financial solidarity in agricultural policy are *by no means conducive to a genuine reconciliation of interests* but warrant fears that the Community will have to cope with greater strains and stresses in future. The supporters of European integration have a special reason to work for a change in the agricultural policy lest the much applauded linchpin of the Community turns into a means for its destruction.

To Sum Up

Nobody can at this juncture present ready-made proposals for a forward-looking agricultural policy. The immediate task is to consider what may happen if the present policy is continued and to look for vantage-points for a new approach. This certainly necessitates a journey into unknown territory. We cannot hope to move into the kind of predetermined agricultural world of full har-

mony into which Mansholt entranced us. It is our job to carry on the development of the agricultural structure which has come down to us as part of the foundation of our European civilisation and in doing so keep the larger social implications before our eyes. Just as we were unable to foresee all our present problems twenty years ago, so we cannot expect to perceive today all the factors which will determine the developments in coming decades. There is all the more reason therefore to make our agricultural policy — the market policy in Brussels as well as our structural policy — *flexible and adaptable*.

There is not much time to lose if the danger to our rural regions, the threat of economic losses and the risk to European integration are to be averted. Please regard these my remarks not so much as criticism but as *suggestion for a discussion* in which we all have the same aspirations for the development of our rural areas and the future of the European Community.

The Decay of the Andean Group

Sven Heldt, Kiel *

The creation of the Andean Group in 1969 and its ambitious program had been accompanied by optimistic expectations of its members who now have become disappointed. Regarding the conflicts within this Group the withdrawal of Chile plays a prominent part — a withdrawal which will probably have negative effects on this country, but also for the rest of the Group it represents a painful shrinkage.

The creation of the Andean Group in the year 1969 by Bolivia, Chile, Colombia, Ecuador and Perú¹ was the result of the difficulties encountered within the Latin American Free Trade Association (LAFTA), due to a lack of common interests and an insufficiency of instruments designed to prevent an unbalanced distribution of the benefits expected from the integration process. It were therefore those members of LAFTA classified as having restricted markets² or whose economies were relatively less developed³ that principally showed interest for a change. They were convinced that only through the creation of a close economic unit it would be possible to counterbalance the economic weight of the remaining three big members within LAFTA, namely Argentina, Brazil and Mexico, and by this way facilitate

the integration of the whole Latin American region. The essential objectives of the Andean Group were therefore defined as follows: to reach a persistent improvement of the standard of living of the inhabitants of the subregion through a process of economic integration leading to a balanced and harmonic development of the partner countries, to facilitate its participation in the process foreseen by the Treaty of Montevideo and to establish favourable conditions for the conversion of LAFTA into a common market.

The strategy of subregional economic integration of the Andean Group provided measures to be executed by specific instruments and within a fixed timetable that would touch almost every field of the economic life of the partner countries. These basic mechanisms were a harmonization of the economic policies of these countries, a common agricultural and industrial programming, the liberalization of the reciprocal trade, the adoption of a common external tariff, special measures designed to reduce the differences in the level of economic development between the partners,

* Institut für Weltwirtschaft, Kiel. This article is part of a project (SFB 86) sponsored by the Deutsche Forschungsgemeinschaft.

¹ Venezuela adhered only in the year 1973, although it participated in the initial negotiations.

² This group of countries comprises Chile, Colombia, Perú and Venezuela.

³ The relatively less developed countries of LAFTA are Bolivia, Ecuador, Paraguay and with restrictions also Uruguay. But only Bolivia and Ecuador are members of the Andean Group.