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Requisites and Possibilities of a Controlled Nationalization of Agricultural Policy

by Ulrich Koester, Kiel*

The recent announcement of the French Government's decision to support the French agriculture this spring by direct income transfers to the tune of ffr 4.6 bn brings home the fact that some national governments need national autonomy in agricultural policy. Regrettably it seems to foreshadow an increasingly uncontrolled trend towards nationalization in this field. Our contributor therefore takes up the question whether the problems of the Common Agricultural Policy could not be defused by dividing the competences differently.

The point of departure for the following considerations is the hypothesis that in any economic community the common pursuit of a policy is bound to run into difficulties if the interests of all its members are not advanced more or less equally through the common activities. Put differently this means that problems encountered when implementing a common policy are a reflection of diverging national interests. Hence it is easier to put a common policy into effect if

- the common activities are confined to policy areas where relatively few conflicts of national interests may be expected to arise and/or
- the common activities notwithstanding, sufficient scope is left to the individual member countries to satisfy their national requirements.

It will be shown here first of all how the competences in the field of agricultural policy are at present divided between the supranational authority and the individual member countries. It will be substantiated next that given certain features of the Common Agricultural Policy there exists a national need for autonomy in regard to agricultural policy. It will be demonstrated by reference to various facts that the individual member countries are already attempting to put an autonomous agricultural policy into effect. These empirical findings lead on to an appraisal of the present situation and prospective trends. In conclusion it will be suggested how possible conflicts in the implementation of the Common Agricultural Policy may be alleviated by a reformulation of the boundaries of the national and supranational agricultural policy.

According to the present division of competences the market and price policy is a supranational concern. The implementation of structural policy is in the hands of the national authorities acting in accordance with EC guidelines. The EC contributes a fixed rate to the finance for structural policy measures. National autonomy exists only in the area of social policy.

The demarcation of the competences on the deployment of instruments is not the sole determinant for the operation of the common market and price policy. Of greater importance are the objectives to be achieved by the deployment of the instruments in a specific case. The aims of the EC's agricultural policy are laid down in Art. 39 and 110 of the EEC Treaty, but these do not state whose is the competence for the accomplishment of these aims. As things stand at present it is assumed that the common market and price policy is to be used not only in aid of regulation of production and consumption in the EC but, in addition, for the achievement of the income objective of agricultural policy. A greater measure of national autonomy is, on the other hand, conceded for the implementation of the aim of "increase of productivity". This difference shall be dealt with explicitly later on.

Need for National Autonomy

It was pointed out at the outset that difficulties in decision-making on a European level betoken differences between national requirements for agricultural policy activities. It will be recalled that agricultural policy decisions by the Council of Ministers of Agriculture relating to the Common Agricultural Policy require unanimity whenever a country declares

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the decision to touch upon essential national interests. In fact it has become more difficult year after year to arrive at common market and price policy decisions. Eisenkrämer¹ has given a vivid description of the decision-making process in the Council of Ministers of Agriculture. According to this, it follows a definite, easily recognizable ritual with one particular country registering its criticism of the Commission's proposal and declaring that its consent depended on the addition of certain national demands to the submitted package. This was the "tally-ho!" for all the other countries who subsequently filed claims for amendments to the Commission's proposal which then required a unanimous vote. Every country can in this way push through its national demands, but is has in turn to help to meet the national demands of its partner countries. This kind of decision-making process gives an idea of the conflicting national interests existing.

That there is a need for national autonomy in agricultural policy is also indicated by the existence of Monetary Compensatory Amounts. While a unification of the agricultural market entailing common agricultural prices throughout the EC is among the basic principles of the EEC Treaty, different national prices have been a fact ever since 1969. This differentiation between national prices arose only in consequence of changes in

the parities of the currencies of individual member countries, but it nevertheless shows that the individual member countries evidently saw a need for divagation of their national prices from the normal EC price level so as to be able to improve the chances for the attainment of their own objectives. Monetary Compensatory Amounts and the consequent differentiated national price levels have enabled the individual member countries to achieve a certain autonomy in their agricultural policies. In the achievement of national objectives they depended as a result to a lesser extent on the outcome of the common negotiations on the fixing of a commonly determined agricultural price level. It may be assumed that this reduced the conflicts in the common decision-making process. If this hypothesis is correct, it may be inferred that the low level of the currently existing Monetary Compensatory Amounts involves a lower degree of national autonomy and will for this reason provoke greater problems when decisions have to be taken again.

Size of National Payments

Especially instructive for an appraisal of the need for national autonomy in agricultural policy is the size of the national payments for agriculture which do not appear in the EC budget. Table 1 shows that EC countries have spent nationally about twice as much as has been spent on the Community level. Clearly the individual countries see the need for special national expenditure for the agricultural policy apart from the common financing arrangements. It may be remarked in passing that in the present discussion of agricultural policy the magnitude of supranational spending is the chief object of criticism. That national expenditure is much larger and — as will be demonstrated in the following — even more at variance with the objectives of the EEC Treaty is evidently overlooked.

Evidence for the need for national autonomy in agricultural policy is also found in the area of the

Table 1
National and Community Spending on
Agricultural Policy in 1977
(in mn EUA)

National Spending	
Research and consultancy	645.8
Production	3,285.0
Processing and marketing	647.1
Not attributable	758.4
Consumption	331.1
Total	5,667.4
Tax relief	1,374.1 ^a
Total	7,041.5
Social insurance	6,000.0
Total of national spending	13,041.5
Community Spending	
EAGGF: Guarantee section	6,830.4
EAGGF: Guidance section	347.5
Total of Community spending	7,177.9
Grand total	20,200

^a Germany + Netherlands + Great Britain + Ireland + Denmark.
Source: EC Commission, Directorate General of Agriculture.

¹ Cf. K. Eisenkrämer: Gibt es politisch realisierbare Alternativen zur derzeitigen EG-Agrarpolitik? (Are there politically practicable alternatives to the present agricultural policy of the EC?) in: Alternativen zur EG-Preispolitik, Loccum Protokolle 5/1980, p. 39f.

Table 2
Compensatory Payments in European Units of
Account (EUA) per Unit of Cattle (UC) in
Various Countries of the EC

Country	Numbers of UC eligible for Payments	EUA per UC	
		1975	1977
FR Germany	1,257,252	30	25.7
France	1,875,174	35.5	34.6
Belgium	199,619	28.6	34.2
Luxembourg	190,014	—	22.5
Great Britain	2,035,083	37.2	44.2
Ireland	1,325,894	20.88	19.3

Source: Third Structural Report of the EC Commission.

common agricultural structure policy. The EC guidelines on the operation of the hill-farming programme give the individual countries the possibility to fix direct income transfers within a certain band themselves. Payments may vary between 20.3 European units of account (EUA) per cattle unit and 25.6 EUA per hectare. Table 2 shows the different rates paid in individual countries.

Reasons for Increasing Nationalization

Divergent national interests on price demands are bound to collide if the farmers' income claims are to be satisfied by farm price increases in the individual countries. The need for adjustment of national prices to satisfy a preset income claim by farmers is determined by

- ☐ the monetary developments in the individual EC countries,
- ☐ increases in incomes in the general economy outside agriculture, and
- ☐ productivity gains in the agricultural sector.

Given the existing prosperity and growth differentials inside the EC and the divergent monetary trends with national inflation rates varying between 5 and nearly 20 % a year, it is understandable that it is necessary to raise the agricultural prices by widely varying margins in order to achieve the national income objectives of agricultural policy.

It may be assumed that the disparities in real and monetary trends in individual EC countries will, if anything, increase in the future. One of the reasons for this expectation is the southward enlargement of the Community which entered its first stage on January 1, 1981.

One cause of the increasing trend towards nationalization springs directly from the defects resulting from the distribution of competences on market and price policy. As has been pointed out above, the market and price policy is being used not only in aid of regulation of production and consumption in the EC but for the achievement of income objectives. In the past the latter have evidently been considered more important for the determination of prices than the aim of "increase of productivity". This was reflected by what is known as the objective method of the EC Commission to work out the determination of prices. This objective method took only income objectives into account, leaving out productivity aims. While the implementation of the income objective has by now largely been

supranationalized, the achievement of the productivity objective has for the most part been left in the realm of national autonomy.

Conflicting interests will put all the more pressure on the parties at price negotiations to reach agreement the less chance there is of passing on the costs of the decision-making to other parties which have no part in the decisions. If this thesis is accepted, the conclusion follows that more problems will be met in decision-making in the future. For one thing, the enlargement of the EC will cause the interests inside the EC to diverge even further; for another, it will be increasingly difficult to externalize the costs of decision-making. In the past partial externalization was possible through increased agrarian protectionism at the expense of third countries, private consumers at home and the national treasuries. Externalization, however, is becoming increasingly difficult because the amount of available finance is predetermined and the agricultural markets of the EC have become more self-sufficient.

Competence Demarcation Problems

An unequivocal assessment of the present situation could only be made if there were generally accepted ideas about the optimal demarcation of competences in agricultural policy. As such do not, however, appear to exist, it seems necessary to precede the assessment by making several salient points to serve as a basis of assessment.

The present distribution of competences has not only the effect of rendering a harmonization of the original differences between the national interests more difficult but tends to aggravate the divergence of the interests through the institutional arrangements. If, for instance, a member country had the wish to raise its own farmers' incomes more steeply than the other member countries, it had in the past no choice but to go for a bigger increase of agricultural prices. The negative repercussions of a raised farm price level have, however, to be borne, not by the country with the above-average price demands alone, but by the partner countries as well. Assuming, for instance, that a country wants to "do something" in an election year to please the bloc of agricultural voters, it will, under the present system of competence demarcation, have to put a burden on the other countries at the same time. This means of course that from a national point of view price demands are a relatively more advantageous means of achieving an income objective.

The possibility of externalizing national costs is particularly obvious when implementing national

agricultural policy strategies. If a particular country considers increasing milk production by means of a programme to promote individual enterprises, for instance, efficiency calculation will prove to be more favourable under the present system as compared with a system in which the agricultural price level is low. The reason for this is that the disposal of surplus production must be financed by the Community as a whole. Thus, a single country will tend to take a less negative view of production increases than the EC.

In conformity with the basic aims of the EEC Treaty the common structural policy should contribute to a harmonization of the agricultural structures inside the EC. In this way it should be possible to mitigate the differences between the starting positions at the launch of the common policy with the aim of advancing a harmonization of interests.

The common agricultural structure policy suffers from several inherent defects:

□ EC assistance with finance, regularly at a rate of 25 % (with exceptions for Ireland and Italy), is only available if the measures conform to certain guidelines, which, however, have been found impracticable, especially in the poorer countries; the administrative requisites for structural measures in compliance with the guidelines often do not exist, especially in Italy, and it is to be expected that the situation will be the same in Greece and in the countries to join next – Portugal and Spain. The result is seen to be that the countries with the worst agricultural structures, Ireland and Italy, receive relatively small payments (in relation to the accepted projects). Precise information about accepted projects and payments is given in Table 3.

□ It must be regarded as a considerable drawback of the common structural policy that structural measures in the various EC countries are closely related to the financial strength of the individual countries. The financially strong countries will find it easier to come up with the imputed share of finance and be able to carry

out more structural measures than the weak ones. This is a contributory factor in causing the structural policy to “pervert” the compensatory measures insofar as the relatively prosperous countries receive larger funds from the guidance section in Brussels than do the relatively poor countries.

□ In the specific case of the Federal Republic of Germany a cost-benefit analysis is stipulated for “appropriate measures of considerable financial importance” by which it is to be established whether individual measures are worth-while under national aspects. The institutionalized common market and price policy and the common structural policy tend to distort the findings of such cost-benefit studies from the EC’s point of view. From the national point of view the shadow price to be used for the valuation of the quantitative changes induced by the project is by and large identical with the intervention price. From the EC point of view the quantitative effects have, however, to be appraised with the world market price in mind. On the cost side the national computations are, from the EC point of view, distorted because from the national point of view, the 25 % share of the EC does not count as a cost factor. It is therefore perfectly understandable that a number of projects are under national aspects economic although they would be uneconomic from the point of view of the EC. It follows that the EC’s structural policy in conjunction with its price policy sets false benchmarks for the coordination of national and supranational measures.

Problems of National Outlays

It was shown earlier that the national outlays for agricultural policy are in toto larger than supranational expenditure. If it is questioned in the light of the EEC Treaty’s aspirations whether the national outlays help to achieve the EC’s objectives, the answer must be negative. Bearing in mind that it was the principal aim underlying the foundation of the EC to exploit the potential for enhanced productivity, it has to be stated

Table 3
Value of Projects Accepted and Payments Made in Accordance with EC Structural Guidelines (17/64 and 355/77) in 1974-78^a

	Fed. Rep. Germany	France	Italy	Netherlands	Belgium	Luxembourg	Great Britain	Ireland	Denmark
(1) Projects accepted	471,068	394,849	633,516	129,583	123,097	6,577	126,868	70,496	43,717
(2) Payments made	334,990	213,357	167,304	95,692	78,987	6,257	55,484	14,936	29,092
(2) in % of (1)	71.1	54.0	26.4	73.8	64.2	95.2	43.7	21.2	66.5

^a 1974-77 : in 1000 units of account; 1978: in 1000 European units of account.

Source : Eighth Financial Report of the EC Commission.

that this postulate cannot be satisfied if individual national measures lead to a distortion of the production pattern and thereby to the neglect of possible productivity gains in the economic union.

A recent study of the effects of national agricultural policy measures on competition² revealed that measures specific to this sector led to disposable income improvements of 118 to 181 % in selected households in the Federal Republic of Germany. In France, on the other hand, selected sector-specific measures had very much smaller effects on the disposable household incomes; they are put at 54 to 81 %, and it is stressed that in France, unlike the Federal Republic, the measures regularly operate degressively, i. e. the income effect declines as the household income rises, whereas in the Federal Republic the income effect due to sector-specific measures increases as household incomes go up. There seems to be little doubt that such national measures specific to the sector have different promotional effects on the structural adjustment process and may therefore hamper an alignment of the agricultural structures inside the EC.

Conclusion

Problems are encountered in taking decisions on agricultural policy on the European level, in particular because of the aim to use market and price policy for the achievement of the income objective. The demand that the market and price policy should be divested of the dual function of regulating production and consumption, on the one hand, and pursuing the income objective, on the other hand, has been raised for a long time, but it is probably unattainable without a rearrangement of the present competences for the achievement of the objectives. In the common policy, which should be designed to serve the aspirations of the EEC Treaty, it would be advisable to focus primarily on the allocative aim, while the income objective, deriving largely from disparate national starting positions and trends, might remain a national competence. Price increases on the Community level must therefore not be based on the income objective, especially since, with the present protection of European agriculture, any further price rise makes for an allocative loss in the EC. Structural changes which depend – in the main – on the level of

the agricultural prices are hampered by rises of the agricultural prices; the productivity aim will necessarily receive less attention if the market and price policy at the same time pursues an income objective. It is therefore suggested that the competences for the realization of individual agricultural policy aspirations have to be clarified in the first place. If the common policy were to a greater extent subordinated to the productivity objective, a lower price level would follow as a side-effect. In such a situation the individual countries would find it more difficult to externalize the costs of national agricultural policy strategies.

Inherent in a return of the income objective to national competence is, however, a danger that national measures may further a distortion of the production pattern in the EC. The described effects of present national measures could occur on an increased scale. To avoid this happening, the issue of strict guidelines on the EC level for possible measures on the national level would be desirable. Such measures would of course require control in a similar way as in the structural policy area. The EC could conceivably take an active part in the national measures in order to advance the national interest in compliance with the EC guidelines.

In appraising the proposed strategy special thought must be given to the developments likely to take place without it. If the competences for the pursuit of individual agricultural policy aims are not altered officially, it has to be anticipated that the national measures will still increase in extent, but, as hitherto, they will be largely uncontrolled. The rearrangement of competences would create opportunities for tighter control over national measures; besides, it would be possible to alleviate conflicts which arise in negotiations on common prices.

The guidelines on the execution of national measures should of course provide that permission is given primarily for measures which take account of the income objective but entail a minimum of allocative effects. Special thought should be given to direct income transfers or generally to measures which help to lower the factor input in agriculture and thereby raise the incomes of the other factors left in the agricultural sector. The existing direct income transfer tendencies in EC agricultural policy would thereby be strengthened. It will be recalled that direct payments are already being made under the hill-farming programme. These are at present absorbing more than one-quarter of the spending on the common structural policy. Recourse to this facility can be seen to be increasingly popular with the individual countries.

² Cf. T. See g e r s : Wettbewerbswirkungen nationaler agrarpolitischer Maßnahmen in der Europäischen Gemeinschaft. Eine theoretische und empirische Wirkungsanalyse, dargestellt am Beispiel Frankreichs und der Bundesrepublik (Effects of national agricultural policy measures in the European Community on competition. A theoretical and empirical analysis of effects, drawing on France and the Federal Republic of Germany as examples), Münster-Hiltrup 1979.