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SPECIAL AGRICULTURAL PROBLEMS OF THE CLOSE ECONOMIC CO-OPERATION OF COUNTRIES

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By close economic co-operation between two or more countries I mean here more than mere co-ordination of economic plans or substitution of co-operation for competition in the economic intercourse of nations. To me the term means that although these countries remain politically separate and independent units, the circulation of goods and services is subject entirely or mainly to laws and conditions of internal trade instead of those of foreign trade.

Since partly import duties and the like, partly currency regulations, are the means which cause the differences between home and foreign trade, evidently it is in these economic sectors that the barriers have to be removed, either partly or wholly. The latter case is a customs and monetary union of the type of the former Austro-Hungarian monarchy.

A full removal of trade barriers is not very likely in the present economic system. It presupposes an historical development or a different conception of nations and their inter-relations from what is customary to-day. As may be seen from the few available instances, countries insist less on customs duties than on the autonomy of their currency. Even the simultaneous and total abolition of duties in the intercourse between countries is inconceivable to-day because of the far-reaching consequences. But no duties and, if separate monetary systems remain, appropriate regulations governing their relations is the situation towards which closely co-operating countries must tend. We may look, therefore, at the problems attendant on the assumption of a customs union.

What is to be gained by this arrangement? The most important gains are: Firstly that there is no interference with the movement of the productive forces, nature, labour, capital, from one country to another, thus obtaining their best possible combination for the various productive purposes; and, secondly, no obstacles be made to extending the market within the common area as far as competitive power reaches and purchasing power allows. Increased productivity, reduced costs, economic progress, and higher standards of living are the results. And since prospering countries are better suppliers and customers in general there is also a gain in close economic co-operation for third countries.

Clearly more gain is to be expected if the co-operating countries are of different structure. Removal of trade barriers will be advantageous for both, first in the sphere of production, but also in providing additional markets for their products in the industry and population of the other.

Besides this complementary side there is also a competitive one. It would be impossible to find two countries of such different structure that there would not be some more or less parallel industries. The latter naturally look first not at the complementary but at the competitive consequences of the removal of trade barriers. If they have more or less even chances in production, mainly from the cost point of view, then they may take the new situation as an impetus to keener but nevertheless fair competition. But if the chances differ greatly, then opening the gates may mean destruction of, or at least a difficult and costly adaptation for, some industries.

So when weighing up the possible consequences, both sides, complementary and competitive, must be considered. This is one thing that cannot be emphasized too much. The other is that close economic co-operation is not of the liaison kind which lasts only as long as it is pleasant and may be dissolved after some time. It may be compared more to a marriage of the olden times, i.e. one contracted for life and indissoluble, or dissoluble only after a long, painful, and costly procedure. As time passes, the economic structure of one or both countries may greatly alter as a consequence of the economic developments started by close co-operation. Only after this change has taken place is the common economic structure of the co-operating countries shown in its true and lasting shape, and it may happen that then the proportion of complementary and competitive elements will be quite different from what has been assumed at the start. The consequences of such international agreements must be considered from the long view.

So much may be said in general of countries of different structure. The other case is that of countries which show more likeness than contrast in their economic structure. Then, of course, removal of customs barriers opens the way for mutual competition, and the damage caused by it can be compensated only by the gains from close co-operation in foreign trade and co-ordination of production. But then for this purpose no abandoning of customs is necessary, since it can be achieved by synchronized economic planning and agreements on foreign-trade policy.

Now let us consider all this from the agricultural point of view. The angles from which we must look are given by the economic characteristics of agriculture[1] as contrasted with those of industry. And to make our comparisons between countries more concrete let us take Czechoslovakia, Rumania, and Hungary as examples. Of these the first is a more industrialized country with a well-developed agriculture which seems to have the highest costs among them; Rumania is an agricultural country which, though rich in industrial raw materials, has a less-developed industry than Hungary; the latter's agriculture, though less favoured by nature, is on a higher level and seems to produce with higher costs than that of Rumania; in comparison with Czechoslovakia, Hungarian agriculture has one advantage, that of abundant and cheaper labour, but though she has more and better soil, her climate is certainly less favourable.

So Czechoslovak–Hungarian co-operation may represent what we may term the case of complementary countries and Rumanian–Hungarian co-operation that of competitive ones.

In both cases what does industry do in the co-operating state? It combines, for instance, Rumanian minerals with Hungarian factory equipment and skilled labour, concentrates production in the most suitable regions, and achieves by it reduced costs, improved quality, &c. But the Hungarian farmer cannot combine Hungarian soil with Czechoslovakian climate or with cheaper Rumanian labour. Non-transferability of productive forces prevents agriculture making a new and more reasonable division of production within the extended economic area. Since soil and climate are absolutely bound, and also capital and labour are less transferable than in industry, bad soils will continue to be cultivated, cattle to be bred on the pastureless plains, &c., though there are much better regions in the other countries.

Then, again, there is the mixed non-specialized character of farm production; this, too, is a hindrance to rationalization which would require to produce everything exclusively in the most suitable regions with all the means available for the product. Preliminary conditions and possibilities of specialized production in agriculture vary but are always more limited than in industry, and in any case they are moderate in the Danube valley.

But if this is so, then for agriculture one of the main advantages of close co-operation is lost, namely, that of increased productivity and reduced costs by the most suitable combination of productive means. As for costs, there is another thing. There are quite a number

[1] See, for example, Seligman, *Economics of Farm Relief.*

of agricultural products of which Czechoslovakia has a larger import than the export surplus of Hungary. In the case of close co-operation it would be reasonable for Hungary to increase her production of these products and to diminish that of others for which there would be no such good market. But Czechoslovakia could perhaps import these products at lower prices from Argentina or Canada and she would co-operate only on the basis of comparable prices, which means that Hungary would be compelled to reduce prices. To do so would require increased production in order to decrease cost units.

But even if there were a sufficient number of farms on which the farming system could be changed accordingly, it would still remain questionable if the increased production had the same cost-reducing effect as it has in an industrial plant. The proportion of constant and changing costs being different from industry, the marginal point of costs and prices may be comparatively fixed and the effect of diminishing returns would set in. Hungary could then supply Czechoslovakia only at a higher price than she had been paying and even at a price higher than the former Hungarian one. Whether this was discussed before or left to reveal itself only after the agreement, it would scarcely promote good understanding between these countries.

One result of free trade over the borders is a more or less equalized price-level in the respective countries. This raises the problem of the sub-marginal producer. In the case of Czechoslovak-Hungarian co-operation there would be Hungarian manufacturers, in the case of Hungarian–Rumanian co-operation there would be Hungarian farmers, who could not stand the lower prices caused by the competition of foreign producers with lower costs. In industry these sub-marginal producers vanish and the labour employed by them may look for jobs in other industries. In agriculture the sub-marginal producers may persist for a long time, and their number may reach tens of thousands; governments are compelled to defend them by special measures instead of accelerating the process of elimination which would be desirable from purely economic considerations. The simplest and most frequent way of protection is to maintain a price-level which makes production profitable even for those who with the normal price-level would fall out. This would merely be frustrating one of the main advantages of close co-operation, namely, production at reduced costs.

Although a comparison of costs in agriculture is always doubtful there is no question that the Hungarian farmer produces with lower costs than the Czechoslovak, and with higher ones than the

Rumanian. If Czechoslovakia would absorb all of the agricultural surplus of Hungary then the uniform price-level in both countries would stabilize somewhere near the Czechoslovak price-level and the Hungarian farmer would profit, whereas a certain number or all of the Czechoslovak farmers would lose by the removal of trade barriers, the purpose of which is specifically to protect the home producers against lower foreign costs. In the case of free trade with Rumania the same would happen to the Hungarian farmer. So both cases would start adaptation processes the end of which can hardly be foreseen. But one thing may be taken for certain. The flexibility of labour supply to demand is less in agriculture than in other industries; and this the more, the less raw material resources are available to develop industry and thereby to take up the population which in our case would become surplus in the new situation. The country with higher costs would be forced to retain as much or nearly as much population in agriculture as before and to let their standard of living fall.

What, then, would be the compensations for this latter agriculture? There may be two. If this process is accompanied by an even greater fall in industrial prices—which may be assumed in the Czechoslovak–Hungarian case and perhaps even as well in the Hungarian–Rumanian case—then this could be a compensation. But whether it could counterbalance the losses, this again depends on many circumstances; for instance, if agriculture uses proportionately few industrial commodities then the advantage of lower industrial prices is moderate.

Another compensation would be the extended market offered by the growth of industry. Here the transportation charges, the remarkable differences between market and farm prices, and the great variety of the latter, come into consideration. Further, if there are several industrial centres there may be several independent markets, i.e. provided one centre is far enough from the other so that the transport costs prevent market prices of agricultural products on one market influencing prices on the other. The stimulus given by an industrial growth in some parts of the co-operating area may thus help some farming regions but may be indifferent for others, and it may happen that the latter are just those who claim compensation for the competition of the foreign farmers. It may happen also that this latter is the very group of farmers which profits by the dislocation of industrial centres. All this depends on the geographical position of the rising industrial centres in relation to the different farming belts.

Examples of uneven chances for agriculture of an industrial growth may be found in the history of the U.S.A. There certainly were periods when the increasing capacity of the western regions started a very favourable development in the nearer agricultural regions without, however, being of any use to the farmers in the Middle West. And it should be remembered that there were times when western Germany imported while East Prussia was compelled to export grain, because the transport costs between the said regions within Germany were greater than the difference between the tariff-protected import prices in western Germany and the prices obtainable by export from East Prussia to Sweden. Similar situations may arise when abolition of duties changes the market position of agricultural regions, and it may happen that the same region which bears the impact of lower prices also suffers by an impaired market position.

So we see here that the special characteristics of agriculture may neutralize some expected results of close economic co-operation, or even cause trouble where according to the rules and laws of economics advantages should, and in industry in fact are bound to, follow. Therefore in any particular case special care has to be given to these problems.

Let us take a glimpse by way of example at the Danube countries which now figure in international discussions as one of the regions in Europe that ought to be integrated economically.

Of these six countries Hungary is situated in the centre and the others, Austria, Czechoslovakia, Rumania, Bulgaria, and Yugoslavia, are grouped round it, all of them, except Bulgaria, having common frontiers with Hungary. This geographical position explains why the discussions about economic integration of the Danube countries all take Hungary into consideration. With about fifty-fifty economic structure she also holds a middle position between the two groups, Austria and Czechoslovakia being industrial and the other three agricultural countries. She is much more industrialized than Rumania and Yugoslavia, but nevertheless an agrarian country compared with Czechoslovakia and Austria. It is perhaps because of this middle position that the possibility of her co-operation is discussed in both directions; with the more industrialized western neighbours as well as with the more agrarian eastern ones.

Complementariness is fullest in relation to Austria. We may elucidate this with some figures in the table on p. 349. These are, of course, for the pre-war period and for different years, but nevertheless may be taken as characteristic.

Table showing the Extent of Complementary Economy in Danube Countries

	Hungary	*Austria*	*Czecho-slovakia*	*Rumania*	*Yugo-slavia*
1. Earning agricultural population percentage of total earning population	50	26	39	79	77
2. Woodland in percentage of total area	12	35	31	22	31
3. Arable land, gardens, orchards, vineyards in percentage of cultivated agricultural area	73	45	63	79	58
4. Meadows, pastures in percentage of the same	27	55	26	21	42
5. Percentage of total livestock counted in cattle units:					
Cattle	52	80	79	59	59
Horses	27	11	14	27	20
Pigs	17	8	6	6	5
Sheep	3	1	1	8	11
6. Agricultural products in percentage of total imports	13	38	28	4	7
Agricultural products in percentage of total exports	69	7	11	41	60
7. Value of coinciding goods in percentage of total Hungarian agricultural export and of total Austrian agricultural import respectively	92	82	..	..	..
8. Item 7 in relation to Czechoslovakia	72	..	41	..	..
9. Value of coinciding goods in percentage of total Hungarian and of total Rumanian agricultural export respectively	67	..	..	77	..
10. Item 9 in relation to Yugoslavia	65	..	..	..	72
11. Hungary's part in Austrian agricultural import percentage	23	..	..	..	..
12. Austria's part in Hungarian agricultural export percentage	..	25	..	..	..
13. Item 7 in non-agricultural relation between Austria and Hungary	55	57	..	..	..
14. Austria's part in Hungarian non-agricultural import	..	20	..	..	..
15. Hungary's part in Austrian non-agricultural export	12	..	..	..	..

The figures refer generally to the middle 1930s. They reflect the situation caused by energetic development of agriculture in Austria and of industry in Hungary. Before this happened, complementariness was still greater. But even in the later period if Austria had bought all her agricultural import needs from Hungary, Austrian imports would have absorbed from meat 79 per cent., from potatoes 33 per cent., from eggs 61 per cent., from flour 60 per cent. of total Hungarian exports; and the production of some of the most important Hungarian agricultural products would have had to be increased to cover the total Austrian import needs, so, for example, of vegetables with 60 per cent., of cereals with 27 per cent., of fruits with 70 per cent., of pigs with 158 per cent. of Hungarian exports of these commodities.

In the non-agricultural sector Hungary's absorbing capacity of Austrian export goods is smaller, so that in the event of close co-operation Austrian industry would remain more dependent on the world market than would Hungarian agriculture. But it is significant that Hungary could take up 70 per cent. of Austria's wood export, setting aside, of course, differences in kinds of wood needed by Hungary and produced by Austria.

In any case, considering only the economic conditions there is a sound basis for close co-operation here. The social consequences would consist in frictions caused by the adaptation process. These would be much deeper in Hungarian industry than in Austrian agriculture, but there is a chance of mitigating them by transformation of a significant part of Hungarian industry into *agricultural* industry in which Austria would feel no competition, having no raw materials of agricultural origin.

What is the position with regard to Czechoslovakia? The significant figures may be found in the preceding table.

Though this series of data is less complete it shows quite another picture. It may be seen that roughly 50 per cent. of Czechoslovak imports consist of goods of which there is practically no export from Hungary. To this may be added that there are only a few (and from the Hungarian point of view relatively unimportant) goods of which Czechoslovakia could absorb more than 30 per cent. of the export surplus: pigs, eggs, lard, straw, legumes, &c.; still less which would require an increase of Hungarian production to cover the total Czechoslovak import needs: fruit, oil-seed, tobacco, flax, maize.

This, too, was otherwise before Czechoslovakia began her self-supplying policy in about 1930, where the effects have been more significant than in Austria, which means also that the process of adaptation to the situation created by close co-operation—in fact, a process of restitution—would be more painful. This may be assumed also on Hungary's part, since there is in Czechoslovakia a well-developed agricultural industry and Hungary would have competition in those very branches of industry where her main chances lay.

That is not to say that there is no possibility of close co-operation but certainly it would be less close and less harmonious than with Austria.

But it is the co-operation between Hungary and her two south-eastern neighbours that is much more spoken of. This is conspicuous since here the situation is quite the reverse of the western neighbours (see table, p. 349). Instead of complementariness there is a great conformity in the economic structure, though Hungary has progressed far more in industrial development. This seems to be in contradiction to the fact that in Hungarian export the share of agriculture is larger than in that of the other two countries. But if one adds to the agricultural products those of forestry, then the Hungarian percentage remains unchanged, because Hungary has no such export, whereas, for instance, the Rumanian figure would jump up to somewhere near to the Hungarian one.

On the non-industrial sector it is in forestry that either of the two countries could complement Hungary. As for agriculture, there are, of course, remarkable differences which would offer possibilities of complementing each other but for that non-transferability of means of production mentioned above. But the similarities of agricultural structure prevail.

The outlook of a possible co-operation between these countries points towards export, since their interests regarding commodities as well as markets are identical to a great degree.

The hopes set on the co-operation of these three countries or two of them are based mainly on industrial development. Rumania and Yugoslavia are rich in minerals and Hungary has bauxite in a quantity which places her in the second place in Europe when Soviet Russia is excluded; there is much wood in the two south-eastern countries, oil in Rumania, &c. Now industry is governed by the law of diminishing costs, and young industries particularly need extended and protected home markets, since they cannot compete on the foreign markets. This would be offered by the total population of about 35 million, of which in the beginning period more than a half would be agricultural.

There is no question but that an industrial population which would be rising in numbers and purchasing power would improve essentially the market conditions of agriculture. But it is problematic whether the agriculture of all three countries would profit by this improvement in the same measure. The agricultural prices would have to be maintained at the level of the highest, i.e. Hungarian, costs; in other words, Hungarian agriculture would be in the precarious position of the marginal one.

In case of depression it would require sacrifices to keep her intramarginal at a price level at which the other two agricultures still could live without sacrifices. It is inconceivable that those sacrifices would be borne—within a customs union—by Hungary alone; this could be achieved only by restoring barriers. On the contrary, since the main mineral resources are situated in Rumania and Yugoslavia, most probably the main centres of industry would develop there, and therefore a considerable if not the greater part of the burden would be a charge on the industry of the latter countries. The charges would result in higher industrial prices. Imagine the implications: Yugoslav and Rumanian industry have export difficulties, the farmers there pay higher prices, the workers live on a lower standard owing to high prices in industry as well as in agriculture, and all this just to save the Hungarian farmer from ruin.

This shifting over of economic burdens is troublesome enough within one country with more or less national solidarity; but it seems quite unbearable with different nations.

And where does all this trouble come from? From the fact, first, that Hungary is poor in mineral resources when compared with the other two; second, that these others have for the most part just as much agricultural resources as Hungary; and third, that Hungarian agriculture has considerably higher costs. The last fact may be eliminated by time when industrial development in Rumania and Yugoslavia raises agricultural wages, and increasing food demand puts into effect the law of diminishing returns. But clearly the latter presupposes that all the export surpluses of all these countries will be absorbed by increased home consumption. This seems to lie rather far ahead, and therefore this dangerous transition period may last long.

And even when it is over, trouble will not be over. Assuming that the industrial centres will develop at or near the mining centres, the best markets will be in Yugoslavia and Rumania. This may be very good for them, but takes off one of the assets of close co-operation from Hungary.

And so on and so on; one difficulty in agriculture after another. Of course, there is a great deal of assumption and doubtless much error in all this. All that has been said here is not by way of prophesy. It only hints at some special aspects of agriculture which are likely to be forgotten too often in the discussion of close economic co-operation.

It is the more important to reiterate this again and again as in some way or other close economic co-operation of the Danube countries is absolutely necessary and only a question of time.