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Regional Commodity and Other International Agreements

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WHEN I wrote my main paper I had not seen Professor Dams's paper. With Professor Anderson's conclusions I was largely in agreement. I have done my best to quarrel with Professor Anderson on some minor points just to show my appreciation. But I will not leave it only at that. I can, perhaps, be more useful in our discussions by trying to list some of the most crucial questions in this field, commenting upon them and referring thereby also to my points of difference with Professor Anderson. To be realistic I have to draw mainly on my own experiences in this field. These are mostly limited to the European Economic Community and the problems this Community is confronted with, internally and externally. I suppose the questions to be answered in forming regional commodity agreements and progressing towards world-wide agreements will be somewhat the same everywhere. Moreover, I am quite sure that I will be supplemented and corrected in the discussions. Finally, I have added some brief remarks occasioned by Professor Dams's paper which I subsequently received.

Why regional commodity agreements?

Apart from non-economic political reasons *regional* agreements are clearly concluded to widen the possibilities of trade and therefore of specialization of production, but at the same time to protect the home production of the region against outsiders. A regional agreement can be a second-rate substitute for a world-wide international agreement which cannot be realized at the time, but also a deliberate act to create a somewhat isolated preferential regional market.

In the early fifties when the proposals for a Green Pool—leading up to the Common Market—were launched, the raising of the volume of agricultural production was one of the main objectives. Assured markets and guaranteed prices within the Common Market would give more room for specialization in agriculture than within national boundaries alone and was expected to encourage output-raising investments. But, at that time, the hungry forties lingered still in the memory of the policy makers. The pressure of surpluses on world markets later on certainly caused a change in attitude. At any rate, raising the total output of agricultural production is no longer an official objective.

The main concern is now the raising of the level of farm income and some stabilization of it. The main objective may have changed, but the choice of means may produce results that do not differ too much. Intentions do not count but practical behaviour does. Therefore policy makers should be quite clear about what they really want. Some important questions regarding objectives seem to me to be the following:

1. To what extent is a larger output of total agricultural production really intended or at least tolerated as a by-product of measures for other objectives?

2. What level of farm income for various types of farms is the actual present goal and what the long-term goal?

3. How much fluctuation in prices of different products is deemed to be tolerable for the farm income?

4. Are there certain quantitive goals for employment of farm labour to be observed, or a maximum tolerable rate of out-migration?

Higher income can be the result of:

(*a*) higher producer prices (including direct subsidies);

(*b*) reduction of unit costs (or increase of productivity);

(*c*) a larger volume of production.

A reduction of unit costs by using the advances of technology and the economies of scale made possible by mechanization, is certainly in an economic sense the best way to raise farm income but at the same time it is rather difficult to implement. Professor Anderson rightly points to the fact that 'these advances in technology also have tended to be translated into greater output'. He believes: 'because of the highly competitive environment in which farm production decisions are made' (p. 7). I do not quite agree with him on this point. It may be an additional condition, but the prime cause for this phenomenon seems to me to be a lack of sufficiently large mobility of farm labour in relation to the high rate of potential technical advance.

In this connection it seems to me as a European rather unrealistic to suppose, as Professor Anderson does, a high degree of elasticity of supply of farm labour in contrast to a low elasticity of supply of land (p. 2), but Canadian conditions may be different. If he is right in his supposition I agree with him that price protection would be of little help to farm income, but I believe that even in this case protection would be quite superfluous just because of the high elasticity of farm labour. For under these circumstances the result must be full parity income all by itself.

There is another related point on which I differ somewhat from Professor Anderson's statement, again perhaps, because of geographical differences. Speaking about the national objective of full employment, he says that in a system of individual enterprises in agriculture, unemployment does not occur (p. 7). If we restrict 'individual enterprises' to 'family farms' he probably is right that not many of these self-employed persons will be registered as unemployed. But Professor Anderson will agree (in fact he says so at other places) that this does not mean that all the available labour of the members of the farm families is fully used (underemployment) and when used is all efficiently used (low productivity). This may seem a futile distinction, but in my opinion this is not the case, because it leads to different conclusions. Contrary to Professor Anderson's opinion, I would just stress that a manpower policy cannot be missed in agriculture. Granted, not to attract people in agriculture, but to prepare them better for their task and to enlarge mobility of farm labour and potential farm labour. In the past we could observe some absorption of the non-farm unemployed labour in agricultural production during downswings of the business cycle. This may look from a limited point of view as a favourable feature. However, from a general point of view it does not seem quite so desirable and favourable. For it could only cause a larger volume of agricultural products at a time of declining demand, harming farm income or resulting in unsaleable surpluses and therefore de-stabilizing the economy somewhat.

By speaking about the degree of protection the focus generally is the level of duties. But this is certainly not conclusive for agricultural products. The E.E.C. as a partner in the negotiations for the Kennedy Round has proposed to measure the degree of protection by the difference between the total price the producer receives per unit of product (via the market or by direct subsidies in one way or another) and an agreed international reference price for each individual product as a general point of departure. This is certainly a big improvement if the focus should be differences in prices. High producer prices is one of the main instruments for production, but by no means the only instrument.

Each special governmental action produces more or less an effect on the volume of production, the volume of consumption and income, the amount of renumeration of land and farm labour. In high-income countries, such as the E.E.C. the price elasticity for food as a group is rather low. The income effect is an internal business of income distribution and of no concern to outside trade partners. They are mainly affected by the effect of governmental actions on the volume of output. The larger the home production the smaller will be the net import possibilities by a given level and distribution of the national (regional) income. A comparison, for example of the practically stationary total milk production since the war in Denmark and the large increase (30 per cent) in Holland in the same period is even more telling and of more practical importance for international trade than the difference between the producer prices (in 1964/5 about 45 per cent higher in Holland). This is the more important because the price elasticity of supply varies greatly for different products. Therefore a more adequate measure for the degree of protection (or at least an important additional measure) would be an estimate of additional output of individual products and total farm production generated by all kind of special governmental actions. In this way we would see not only the different effect of high producer prices on individual products, but also the consequences in this respect of other special actions, perhaps imposed primarily with quite different objectives (e.g. structural policy).

The choice of the system of protection

The choice of system depends greatly, of course, on the precise objectives.

The Common Market system can be characterized by the following three main points—

1. Protection of products with an import deficit (e.g. grains) as well as products with an export surplus (e.g. dairy products). This is done by way of import levies and export subsidies. The degree of protection may raise total output but the protection is not especially aimed at a greater degree of selfsufficiency as would be the case by giving products with an import deficit a preference.

2. Giving the income protection mainly through market prices by a system of 'lock gates' which keep the internal prices above the world market level.

3. Stabilizing the internal market prices to a great extent by very frequent (practically daily) changes in the amount of levies and refunds (or export subsidies for that matter).

Some comment is called for. The principle of equal treatment of products with an import deficit and products with an export surplus is certainly economically sound, but not if it is executed so that almost automatically the amount of import levy and export subsidy is determined by the difference between the internal target price and the price on the world market. This leads, for example, to the foolish situation that the exports of dairy products earn less than the cost of importing the equivalent amount of cattle feed. This kind of export not only harms the interests of other exporting countries by disturbing the export markets but causes a net loss to the exporting E.E.C. countries themselves. The money return of the exported goods should, at least by and large, cover the opportunity cost involved in their production. Even in their very own interest there are limits to be observed for giving export subsidies.

I do not think that a system of low world market prices supplemented by deficiency payments, as in England, is so much better as a protection. Because the volume of home production is determined by what the producer gets in total per unit of production. It can hardly make any difference to him if he gets it all via the market or only partially. However, it is generally thought that lower consumer prices would mean a larger consumption, and would keep the industrial wage level lower giving the export industries a greater degree of competitiveness. It cannot be denied that, *ceteris paribus*, lower food prices will give a larger consumption. But the supposition of *ceteris paribus* is in this case certainly wrong, because the spendable income (after taxes) will be smaller in case of a deficiency-payments system. After all, if the higher producer prices are not paid for by the consumers they have to be paid out of taxes somehow. It depends on the incidence of the extra taxes needed to make up for the deficiency payments whether or not a larger consumption will result.

Professor Anderson seems to endorse the widespread opinion that high food prices—as a result of price protection instead of direct subsidies—tend to increase the industrial wage level with all the bad consequences. I am not convinced that the level of food prices in industrial countries has anything to do with the general level of industrial wages because wages in these countries are so much above the basic cost of living, which might be a factor of labour supply. In my opinion, the nominal level of wages in country *A* is determined by the price level of competing products on the export and import markets and the general productivity of the competing production in the country itself, under conditions of equilibrium of the balance of payments and full employment. Of course, if food prices are kept lower by a better international specialization of production—that means: lower real costs—then the real wage level will be higher at the same nominal wage level because of the higher over-all productivity of country *A*. But if the food prices are kept low by way of deficiency payments to farmers with the same amount of protection of home farming there is not much difference because deficiency payments have to be paid somehow out of taxes. That the level of food prices is not decisive in this respect can be shown by comparing the export performances of England—with low food prices—and Germany—with high food prices—in the last ten years.

There is, however, one advantage that can easily be overlooked, but even now it is no longer part of the English system since low—minimum import prices are being fixed and upheld by variable—low—import levies. The various feed grains which are imported in E.E.C. and E.F.T.A. countries alike in large quantities are highly substitutional. But fluctuating price differentials of these individual feed grains in world markets are compensated by changing amounts of levies for each kind of grain. Farmers inside the Common Market are prevented by these varying levies from always using the feed grain which is cheapest in the world market. Consequently the import feed bill is much higher for the Common Market than is necessary. This system of variable levies and refunds—alias export subsidies—is inward looking to keep the prices stable at the target level. It therefore has a strong tendency to autonomy quite different from a preferential system with fixed tariffs, which ensures that internal prices keep constantly in touch with fluctuations of prices on the world markets. The motivation for choosing *variable* levies and refunds is that prices on world markets are considered to fluctuate too much to be bearable for farm income. The variable levies, however, largely isolate ultimate demand from changes in supply on world markets and in this way make fluctuations in prices on world markets much stronger. It might be a step in the right direction if E.E.C., for their own profit and as a contribution to the stabilization of world markets, were to replace the variable levy system, at least for grains, by a fixed levy per year of the same amount for all feed grains; or at least to use a much larger margin of tolerance for the changing of the levy as has been practised in Sweden to some extent since 1956.

The use of the system of variable levies and export subsidies has been much further spread than was originally intended. Now it can even come in use for beef, horticultural products, and oranges. Of course farmers like high and stable prices, but I am not convinced that is necessary for maintaining a reasonable level of farm income to eliminate to such a large extent fluctuations in the prices of all these products. It smacks of technocratic perfectionism combined with a preference for the hothouse. Moreover, the frequent changes in levies and refunds are a great nuisance for genuine international trade and a source of speculation for others, who must get their profits ultimately paid by consumers and taxpayers.

The level of prices is mainly determined by the objective of a reasonable farm income. To prevent an increase of output—if this really is wanted—the governments have to be selective according to the various price elasticities of supply. Our knowledge in this field is not very precise, but for Western Europe one can rather safely say that the expansion of the production of arable products (save horticultural products) is severely limited in total by the available area of cultivated land. The danger of increasing the output by high prices lies mainly in the field of animal production and horticultural products and fruits. This is especially so for milk where the high internal producer's price with the help of cheap imported proteins from oil seeds—free of duty—can expand output considerably. It would be economically sensible to stop this foolish conversion of imported concentrates into dairy products which can only be exported at a loss. A levy or purchase tax on these concentrates would be an effective, appropriate, and justified counter-measure, in my opinion.

The E.E.C.-Commission does suggest that there is something of a normal price ratio between various agricultural products. By fixing first the grain prices, which occupy a kind of key position, all other prices should practically be determined within narrow limits. This theory does not seem warranted to me on grounds of economic logic and facts of life. There is, in fact, much freedom in choosing ratios and for every combination of price ratios there will be a different equilibrium in production pattern of the Common Market.

It is difficult to determine if a relatively lower internal price level in general would make much difference in total output of agricultural products. The question might perhaps be but as follows: How many farm workers will be prevented by the higher price—and presumably income—level from leaving agriculture and what would they have added to non-agricultural production? These are the real macro-economic costs of the additional volume of agricultural output and not the difference in value of total output measured at the high price level and the something smaller total output at the lower price level. It seems to me that the total volume of production will not be restricted in the E.E.C. by lack of sufficient labour for many years to come. The already large exodus of farm labour cannot keep pace with the reduced need for manpower caused by the possibilities of mechanization. The existing potential gain in income with the present price level seems large enough to provide an impetus to leave agriculture. Insufficient local employment, technical difficulties in changing occupations and preferences for being one's own boss, are certainly all playing a role.

It seems to me that more important than the level of prices are the ratios between prices of products and especially the ratios between prices of factors (e.g. feed) which are available in practically unlimited quantity and of products which can be produced with constant (or even decreasing) unit costs (e.g. eggs).

The structural policy

This field of action is aimed at adaptation of the production, processing, and marketing of agricultural products to modern mechanized production methods. It is directed not to products but to the production or even better to the production resources. The *objective* of restructuring an agricultural sector now largely inadequate for applying rational mechanized farming is promising and economically sound.

It seems to conform to Professor Anderson's final conclusion that a positive programme of rearrangement of resources in agriculture should have priority above what he calls the commodity approach. I agree fully with Professor Anderson that 'The roots of the income problem are found in the preoccupation of policy to increase agriculture's productivity and output potential, and to improve marketing techniques and selling procedures' and the tendency 'to neglect the problems in the use of resources' (p. 8).

The structural policy of the E.E.C. claims just to do what Professor Anderson recommends. But does it really do so? According to the Rome Treaty the structural policy is the domain of the national governments, but the Community has to 'co-ordinate' these national policies. The main instruments for this purpose are:

(*a*) laying down maximum rules for national subsidies to prevent unfair competition (not determined yet, but the proposals leave a lot of room for national action);

(*b*) allocating subsidies out of the Common Agricultural Fund for investments in the field of production (agriculture proper) as well as in the field of processing and marketing.

The structural policy in the national field consists mainly in providing large subsidies (up to 70 per cent of the money costs) for all kinds of investments—re-allotment schemes, irrigation, drainage, land reclamation, buildings and other structures, storage and processing plants, etc. The subsidies given by 'Brussels' out of the Common Agricultural Fund to individual projects have the same character as the project subsidized from national sources. 'Brussels' does not give as a rule more than 25 per cent of total investment cost as subsidy (in special cases 45 per cent) but the national governments are allowed to supplement these subsidies up to 70 per cent. So far, the sharing out of subsidies from 'Brussels' is hardly anything other than a cumbersome roundabout way for the Ministers of Agriculture of the Member States to get some extra money for the same kind of projects from their own Ministers of Finance. In 1965, for example, only about 10 per cent of the total amount of subsidies out of the Fund meant a net transfer from one country to another country. Moreover, the chosen projects were all approved beforehand by the national authorities. But this was only the first phase.

For the next three years so-called community programmes are proposed for ten different types of investment—total reconstruction of agriculture, irrigation, drainage, and reforestation—and for different products in the processing and marketing field-vegetables and fruit, dairy plants, meat, and olives. These shall be restricted to certain regions and not all applied in every Member State alike. This may be an improvement in several ways.

The amount of money spent as subsidies for investment in agriculture by the national governments is many times larger than comes from 'Brussels' out of the Fund. This will most probably be so even if the Fund is able to spend the agreed maximum per year of 285 million units (a unit is equivalent to a U.S. dollar) for these purposes. There is a widespread opinion outside agriculture in the Common Market, and outside the Common Market in circles interested in agricultural trade, that the more money is available for structural policy the better, because more can obviously be done in this field and that this is considered to be a sound objective. But is it really so in practice?

There is a strong tendency to equate all measures in the structural field as income increasing by way of raising productivity and equate the market and price policy as only income increasing by way of income transfer. I contend that this is a false equation. In both fields the measures taken have more or less an income-creating effect by raising productivity and at the same time an income-transferring effect. For instance, a guaranteed price level forms an incentive for investments, which can be essential for raising productivity, A specific subsidy for this kind of investment—classified as a measure in the field of structural policy—can do the same job, but a subsidy at the same time means an income or for that matter a capital transfer, as well. In my opinion the difference between both fields of action is mainly to be found in their different place of application, namely measures aimed directly at the products of agriculture, and measures aimed directly at the factors of production. In both fields the measures have to be tested on their effects on productivity, income and not forgetting also on the volume of production.

When promoting investments in the structural field care should be taken to keep the purpose of it clearly in mind. It is my impression that some ambiguity does exist. It is frequently said that low farm incomes should be increased by these measures, but also that in this way the real cost of production should be diminished. This seems only another way of stating the same thing, but in reality there is an important difference. Increasing farm income by promoting investments can be the result of:

(*a*) smaller input per unit of output (lower real costs);
(*b*) a larger volume of production at the same unit costs;
(*c*) transfer of income or capital as the result of the subsidy itself.

A smaller input per unit of output sets an amount of input—in practice, labour—free, which can be: not used (e.g. premature pensioning of farmers) *or* used for agricultural production, which means that at the same time the total volume is increased *or* used for non-agricultural production.

Next it is possible without a lowering of the unit costs to increase the income in agriculture by the effect of the greater capacity created by the investment, e.g. larger buildings for more dairy cattle.

It may even be that if the total investment costs had to be borne by the farmer his unit costs would go up instead of down. Solely owing to the large subsidy it is profitable for the farmer to make the investment. I suspect that this is the case for many land improvements. As a matter of fact, it is hard, or even impossible, for an economist to understand how this kind of subsidy contributes to increasing efficiency or lowering real unit costs.

A remarkable feature is that, as far as I know, for none of these heavily subsidized multi-million dollar projects have benefit/cost calculations been attempted to test the economic feasibility of the investments. Nor do the E.E.C. authorities seem to find this a necessity for giving priorities for the choice of projects. I would suggest that this must have first priority.

A very large part of the activities of the national governments and 'Brussels' in the field of structural policy has the effect of increasing the production capacity of the agricultural land, and also stimulating animal production on imported feed by the subsidizing of buildings. Partly it is done just to provide employment, e.g. resettlement of French farmers who had migrated from Algeria, mostly to raise the output per farm worker. Intended for other purposes the outcome is nevertheless a larger output. The stimulated expansion of production by heavy and widespread subsidizing of investments in productive capacity may even be a greater danger for the export trade of third countries than the output increasing effect of a high internal producer price level. Therefore the structural policy has definitely a lot to do with regional commodity agreements and their effect upon international trade. The protective influence is unmistakable.

The importance of stimulating industrial development and employment in agricultural regions with a bad structure and under-employment is fully recognized by the authorities of the E.E.C. Agricultural projects located in such a region where industrial development is being stimulated even get a preference by allocating subsidies according to the proposals mentioned. However, the full consequences are not drawn from this recognition in my opinion. The modernization of agriculture is largely a matter of substituting labour-saving machinery and other industrial products for farm labour. A sufficient out-migration of redundant labour in agriculture and the closing down of many small farms is therefore a prerequisite to making possible a restructuring of agriculture in a certain region and at the same time meaningful in an economic sense. Priority should in my opinion have been given to the development of employment outside agriculture in these regions and not on investments in agriculture. It is a bad symptom that even a proposal to use money out of the Agricultural Fund for stimulating retraining of farm workers for industrial work was turned down.

In general, it seems to me that the essence of a sound structural policy is to 'grease' the social and economic machine to get a greater degree of mobility of the factors of production, especially labour and land. The main motor of the movement in my opinion is the employment possibilities outside agriculture. This seems to me the right resource approach and I expect this is to what Professor Anderson really has in mind.

This is not to deny that there is also much to do in the restructuring of agriculture itself. But that can wait a bit longer for in most regions it is not yet possible to make re-allotments to large enough rational units of farms because there are still far too many farmers who do not wish to close down. I realize that it is politically difficult to slow down this liberal dole of subsidies for a time and let the regional industrial development and general growth first do the main job of providing employment. A crash programme for agriculture itself sounds to many people more attractive, but to an economist it does not seem the best investment of public money from a general point of view and not even as seen from the agricultural sector itself. Unless the real objective is to secure a large degree of self-sufficiency in food production out of fear that there will not be enough food available in world markets in say the year 2000.

From regional commodity agreement to world commodity agreements

The regional agreement of the Six (E.E.C.) will probably be enlarged by a number of countries and in the end enclose practically the whole of Western Europe in some way or another. It is tempting to go into problems for the countries directly concerned related to this process of enlargement. I will not do so. I just want to draw attention to the fact that the larger the European Economic Community grows the smaller will be the excluded international market in food products. Most probably this larger community will produce—as T. K. Warley from Nottingham has said—more autarchy internally and near anarchy externally.

As a kind of compensation for this unfavourable influence of the customs union on the international markets and in a genuine effort to help to overcome at last the longstanding near anarchy in world markets, the E.E.C. has made proposals for world-wide multilateral commodity agreements for cereals, beef and veal, butter, sugar, and oleaginous fruits. The main elements of these proposals were:

(*a*) to keep up certain minimum prices in international trade for all commercial trade;

(*b*) to freeze existing levels of protection as far as they influence the total producer's prices per unit of the various products;

(*c*) to dispose of surpluses by concessional sales or gifts to countries in need of them.

As is well known the Gatt-agreement concluding the successful Kennedy Round did not seriously consider these proposals, but most probably negotiations will go on.

The main contribution to world agreements which E.E.C. is prepared to make is essentially to pay a little more for imports of these products (minimum prices) and even share partly in the costs of surplus disposal for food aid. It does not want to offer better opportunities for enlarging the volume of food imports, apart from the increase in demand resulting from growth in population and income. Granted it does offer not to raise the existing level of producer's prices, but the output raising measures labelled as national and community structural policy are left outside the picture.

To start with stabilizing prices and bringing them on a somewhat higher level is to my opinion trying to cure the symptom instead of the cause of the disease. Without allowing for a larger volume of imports it cannot be said that the E.E.C. makes a real contribution to stability in world markets. This can only be brought about by decreasing gradually all kinds of governmental actions, in the field of producer's prices as well as in the field of structural policy, which stimulate increase of output. But this is just the tender spot of employment in agriculture and the farmers' income. Only the acceptance of one stabilized price level, national and international, can thaw the freezing of free allocation of recourses on a world level.

Professor Anderson states that 'the most important reason to expand international agricultural trade would be the rate of growth in the lesser-developed regions' (p. 2). He is most probably right from a world point of view, but this does not pay regard to most of the international trade in products from temperate zones. As far as it concerns tropical and semi-tropical agricultural products, I believe a more reliable foundation upon which to build enlargement of international trade is not, in the first place, to do the other fellow a good turn but for the benefit one gains from it oneself. It can easily enough be shown that, for example, a substitution of a part of the home production of sugar, sugar-beets, by imported cane-sugar, would be a very profitable business from a national point of view for all West European countries alike.

I hesitate to comment on what Professor Anderson has to say about the role agricultural products have been playing with regard to inflation. The phenomenon of inflation is so complex and so essentially bound up with monetary policy and income policy that it seems a little bold of Professor Anderson to claim special credit for agriculture in this field. However, I would like to point to a special role international commodity agreements might play in stabilizing prices in world markets as a commodity reserve currency, but this is quite a special subject that perhaps can be taken up in the next conference.

I now turn to Professor Dams's paper. In his introduction he refers to two main economic problems, namely the necessity in the first place 'that agricultural policy must be integrated in the national framework of economic policy as a whole' and secondly 'the co-ordination of national agricultural policies on a world level'. I am wondering if these two problems are not just two aspects of the same fundamental problem of maladjustment of productive resources between agriculture and non-agriculture in the various countries. Probably this is also what Professor Dams has in mind by speaking in his paper about the 'close inter-relationships between 'internal' and 'external solutions in agriculture and industry'. If this view is right the focus should be mainly on adjustment of national policies regarding agriculture which by itself would help to restore to an important extent equilibrium on international markets instead of the other way around. This would fit Professor Anderson's conclusion that a shift in emphasis is needed from 'commodity' to 'resource' emphasis.

I do not quite grasp the meaning of Professor Dams's digression in Part II about the relation between economic growth and international trade. I readily agree with him that just more export of primary products is not enough to secure a satisfactory degree of economic development. But that more export can be harmful for economic development seems to be strange—at least so long as we are not dealing with a case like exporting dairy products for less than the costs of feed. I would be very much interested to hear from him about examples of countries where an increase in the volume of exports has exerted a 'braking' function for economic development' or, in plain words, was bad. I noticed that Professor Dams is citing other economists but apparently with approval; perhaps my impression is wrong because otherwise I cannot reconcile this with his unconditional plea on page 319 for an absolute increase of these exports to industrialized countries.

Regarding the 'commodity terms of trade' Professor Dams is citing Prebish, who holds the opinion that the industrial countries are 'exploiting' the developing countries. This is a very suggestive word with a highly emotional content but has it a precise economic meaning and if so what? Is there a just 'commodity terms of trade' or—even more important and also more relevant—a 'just' 'factor terms of trade' between different countries or even groups of countries? To focus the issue I would put the question: 'Are the industrialized countries rich because the undeveloped countries are poor?' Would it be efficient to try to change the commodity terms of trade by international commodity agreements on other than commercial grounds, e.g. stabilization? Would it be sound policy to channel aid in this way to developing countries or better to keep aid apart from commercial trade?

I agree with Professor Dams's statement on page 314 that regional integrations, like E.E.C., are likely to enlarge the degree of self-sufficiency, but I am not so much convinced about the 'significant consequences for the [greater?] competitiveness on world market for agricultural products. It seems to me that we have witnessed so far in the agricultural sector of E.E.C. not much trade creation (which must mean lower real unit costs), but a lot of trade diversion (thus higher real unit costs), fortunately over compensated by trade expansion as a consequence of the increase of population and an over-all rise in income per head. It seems rather bold to attribute the whole rise in imports of agricultural products just to integration.

For third countries with export interests in the agricultural field an enlargement of the Common Market with the prevailing C.A.P. is not just the promised land. Even the increase of income per head, let alone the increase of population, certainly does not all result from the forming of the Common Market.

In Part III on page 317, speaking about E.E.C. and World Trade, Professor Dams says 'that it cannot be overlooked that a conflict-situation exists between the realization of the goals of Article 39 (increasing of the individual earnings of persons engaged in agriculture) and Article 110 of the E.E.C.-Treaty (harmonious development of world trade and the progressive abolition of restrictions on international trade and the lowering of import duties', I agree with him that in practical agricultural policy there is a conflict situation, but in my opinion it is not the consequence of the objectives of Article 39.

The logic of Article 39 does not seem to me to be in conflict with the content of Article 110. The relevant part of Article 39 says:

> The common agricultural policy shall have as its objectives:
> (*a*) to increase agricultural productivity by developing technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, particularly labour.
> (*b*) in this way to ensure a fair standard of living for the agricultural population, particularly by the increase of individual earnings of persons engaged in agriculture.

The decrease of real unit costs thus should be the source of more income for farmers and other workers on the farms. It may be too good to be true, but it does not seem to me to be in conflict with a liberal trade policy. I would not go so far as to say that the first objective is forgotten, but certainly the second objective has got much more weight and has got a meaning quite independent of the first one. I do not say that this is wholly wrong, but it stresses my thesis expressed in my paper 'it is not intentions that count but actual behaviour'. According to a story in circulation a special dictionary exists for use by officials of an international organization. 'In principle accepted' it is reported to say means in English, 'the main lines of the proposals are agreed upon, only the details have to be settled later on.' The same expression in French with practically the same words (*en principe accepté*) it is reported means just a courteous refusal, meaning that it would be fine in a hypothetical dream world of theory but is not at all fit for practical use. There is quite a lot of this kind of French prose (if my French friends allow me to say so) in use in the Common Market and in the world at large in a great number of languages including my own, and even in English I venture to say. I think we as economists should at least be on our guard against the intoxications of words and not try to intoxicate others by this kind of prose. We should stick to the analysis of relevant facts and actual behaviour.

GROUP J. REPORT

THE discussion focused on problems associated with the commercial arrangements between the developed and less-developed regions, on the one hand, and between developed countries exporting and importing agricultural products, on the other.

In the first area much of the debate centred on an issue raised by Professor Dams, namely the relevance of the theory of international trade in the contemporary world, given the urgency of promoting faster economic growth in the less-developed countries. In his view economists were ill equipped to give policy makers a coherent theoretical basis for making rational decisions because of a lack of integration between the theories of trade and growth. In particular, trade theory did not take sufficient account of factor immobility and the fact that trade was not efficient in mobilizing productive factors for international development. Furthermore, much of policy-making took as its starting-point the objective of growth, yet there was little of trade theory in modern growth theory. Underlying Professor Dams's position was the contention of Myrdal, Prebisch, and others that because of structural differences in the demand for the export products of the developed and less-developed countries and the present lack of competitiveness of the latter's newly established manufacturing industries, free trade could not only not guarantee their growth but might indeed impede it by exacerbating their tendency to run an external-payments deficit. Professor Horring stated that the major determinants of growth were the development of technical productivity, the opportunity to exploit such developments through international specialization and trade, and ensuring full use of available resources by full employment policies. He reaffirmed his belief in the need to give high priority to the objective of securing efficiency in the use of the world's resources in evolving international and regional trading systems, and expressed anxiety in this respect about the consequences of implementing the programmes to which an uncritical acceptance of the above analysis leads. In particular, he was apprehensive about the proposal that the commodity terms of trade of the less-developed countries should be improved by raising the prices of their primary product export through the medium of international commodity agreements. In his view, this was an inefficient way of transferring resources from the rich to the poor, for the use of the price mechanism to effect an international redistribution of income would inevitably have adverse repercussions on resource use—induce further production of commodities already in surplus, discourage diversification and the clearing of supplies already produced—and lead to the accumulation of surplus stocks. Professor Dams shared some of these apprehensions and stated that he himself would prefer international commodity agreements which gave more attention to demand creation and production adjustment. None the less, in the real world it was impossible to separate out concern with aiding the peoples of the poorer countries to attain a more rapid rise in their standards of living from consideration of the conditions under which they traded, and completely free trade did not seem to be compatible with their accelerated development. It followed that the organization of world trade according to the postulates of existing theory was not feasible, and that the objective of efficiency in the use of national and international resources might have to be subordinated to that of achieving a more acceptable distribution of income.

Some reservations were expressed concerning the evidence cited by Professor Anderson that complete removal by the developed countries of all tariffs and quantitative restrictions on the products of the less developed would reduce to only a small extent the latter's anticipated external payments imbalance. The importance of making due allowance in such calculations for increases in consumption induced by lower prices and substitutional effects was stressed. Furthermore, even if it were true that the aggregate position was as stated, this should not be allowed to obscure the fact that individual less-developed countries might derive very great benefits as a result of the richer countries adopting more liberal import policies towards products originating in the developing regions.

In a brief discussion on regional trading arrangements between developing countries there was support for the view that such arrangements would facilitate the exploitation of potential economies of scale in production, distribution, and, not least, research.

The discussion of the agricultural trade problems associated with the formation of regional trading groups centred largely on those caused by the formation of the European Economic Community and the nature of the common agricultural policy which the member governments had adopted.

Professor Horring was again concerned to emphasize how the implementation of this policy led to obvious inefficiences in national and interregional resource use. Both he and Professor Dams stressed that this result was not a deliberate intention of the architects of European economic unity, but an inevitable consequence of over-reliance on price policy rather than structural policy, and the fact that most of the so-called structural reform programmes of the Community resulted, in practice, in more resources being committed to agricultural production, Professor Dams added that an efficient structural policy had to be consistent with equilibrium in agricultural product markets and take into account traditional international flows of farm products. There was general support for the view that, *in principle*, national agricultural policies should be a part of, and contribute to, general economic policy and international economic policies, and that European agricultural policies should be reorientated so as to give more emphasis to the movement of resources from agriculture into other sectors where their productivity was higher. Indeed, it was stated that such policies should be pursued on the grounds of economic self-interest alone, though they would have obvious beneficial effects on international specialization and trade, too.

However, the view that economically illogical or harmful policies came to be implemented because economists had failed to raise the economic literacy of those who formulated policy for the agriculture sector was seen as narrow and naïve. Economic objectives were neither absolutes nor primary since economic policies for agriculture had to be evolved against a background of political and social constraints. Politicians were necessarily and properly preoccupied with national, group, and individual welfare as well as efficiency in resource use. In any event, economic magnitudes and relationships were known with so little precision that it was impossible for those who formulate policy, or those who advise them, to determine the economic consequences of alternative courses of action or to evaluate the consequences of current disequilibria in world agricultural production and trade. It was suggested, in contrast, that the availability of computers, simulation techniques, and increasing volumes of quantitative data would now permit the practical exploration of alternative trading arrangements between countries and regions, and perhaps lead thereby to advances in the theory of international trade.

At many points, the discussions were inconclusive and several issues clearly warranted more exhaustive consideration. Amongst these, participants perhaps went furthest in exposing their lack of understanding of the contribution of welfare economies and political science to the evolution of national and international agricultural policies and the role of the economist in this process. Secondly, it might have improved the sharpness of deliberations if time had been devoted to a more detailed examination of how far the proposals for comprehensive international commodity agreements made in the recent G.A.T.T. negotiations and in U.N.C.T.A.D. contained the elements of a coherent policy for managing international production of, and trade in, agricultural products. Thirdly, the facile assumption that the trading opportunities of exporters of agricultural products would be improved if the present highly protectionist policies of importing regions were abandoned in favour of policies which accelerate the mobility of resources out of agriculture should not have been accepted without further exploration of the effect of such structural and resource policies on the level and composition of output in importing regions.

Among those who contributed to the discussion in addition to the opening speakers were: Theodore J. Dams *Germany*, J. Horring *Netherlands*, W. J. Anderson *Canada*, D. Paarlberg *U.S.A.*, D. R. Bergmann *France*, J. N. Lewis *Australia*, A. Kraal *Netherlands*, B. R. Davidson *Australia*, F. Shefrin *Canada*.