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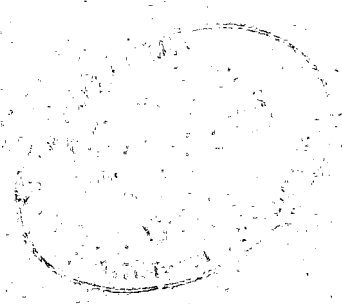
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Agriculture and the European Common Market

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PROPOSED CRITERIA FOR FIXING THE PRICES OF
AGRICULTURAL PRODUCTS IN THE EUROPEAN
ECONOMIC COMMUNITY

Introduction

ON 14 November 1962 the Commission of the European Economic Community submitted to the Council of Ministers a proposal on the criteria to be taken into account when prices are fixed for agricultural products. The Commission thereby took the action required of it by Article 6 on the regulation on cereals, the only regulation so far which lays down that there shall be an intervention in prices. Under this article the Council must, when deciding how prices shall be fixed by Member States, be guided *inter alia* by experience and by certain specified criteria to be established by the Council itself, acting on a proposal from the Commission. The decision has not yet been taken by the Council. This paper deals only with the Commission's proposal.

General

The criteria laid down should be applicable to products other than cereals. The purposes pursued in agricultural price policy do not cover just a single product or group of products; they should apply to all products for which target or similar prices are to be fixed by the Council. Target prices are already in force for cereals, and are envisaged for sugar, milk and beef.

The criteria proposed by the Commission are of a complex character. This is due to the fact that price policy in agriculture must be consonant with the multiplicity of purposes to be served. Since not only farmers but also the industries processing agricultural products, and traders, consumers and taxpayers are interested in farm prices, the criteria for the fixing of prices could not be limited to one single group. In fact three groups have been formulated, based on:

- (i) the income of those working in agriculture,
- (ii) the adjustment of production to demand,
- (iii) the development of the economy as a whole.

Though the relative importance of these groups has not been defined exactly, none could be neglected completely in fixing prices. The Commission's proposal states that all three must be taken into account, but for the rest leaves the relative importance of each to be determined in every case by the existing economic and political circumstances.

Criteria based on income

Here it should be remembered that in most of the Member States of the Community price policy is primarily devised to achieve one purpose; since world agricultural production has been expanding more and more, this purpose has been to ensure that farm incomes are higher than they would be if prices were determined exclusively by the interplay of supply and demand. The price levels fixed for the most important items produced in these countries are determined on the basis of production costs on the average farms. This policy, which serves a predominantly social purpose, has meant that the biggest farms, and those which are best equipped and managed, have made important profits, while the profits of most small and medium-sized farms have not been sufficiently high for the farms themselves to be rationalized, or for costs to be reduced, and there has been no incentive to take action in good time for production to be related to changes in demand.

A. Aspects of Price Intervention for Agricultural Problems

Experience having shown that not all agricultural problems can be solved by price policy alone, the Commission in formulating its criteria in connexion with farm incomes has proposed another method. According to this proposal price policy would be directed primarily to ensuring that prices for products subject to intervention should offer a fair income reckoned over a period of years to persons working full time on farms which are economically viable and well managed, but not on all farms or even on the average farm; the term 'fair income' should be taken to mean an income corresponding to the income of persons working full time in other comparable activities.

The effect of this would be to create through price policy an economic climate in which certain, but not all, farms can realize, not every year but over a period of years, a fair income thanks to price policy.

This means that no income guarantee whatsoever is given to the

agricultural sector as a whole, or to different sectors within agriculture, or to farmers individually.

A policy which would guarantee an income for agriculture as a whole, or for different sectors, would bring with it serious economic and political difficulties.

Economic difficulties would ensue because such a guarantee would not make due allowance for the relative pace at which agriculture, or different branches within agriculture, was developing in relation to the other economic sectors.

Political difficulties would appear each time that a global income had to be fixed for agriculture as a whole or for its various branches.

A common agricultural policy—and more specifically a common price policy—will not give complete income guarantees to the individual farmer. Such an assurance would lead to serious difficulties and one effect would be to take away the incentive to produce as efficiently as possible.

Though the price policy proposed aims at enabling farmers, working on well-managed and economically viable farms, to earn a fair income, those working on farms which are not economically viable or well managed will be unable to draw a fair income as a result of prices alone.

Social motives or the public interest do, however, require that even these farms should be enabled to earn a fair income. This is made possible by providing that in addition to measures in the field of price support measures may also be taken in such fields as

- (i) structural policy,
- (ii) regional policy,
- (iii) social policy.

First of all an endeavour should be made to improve the economic situation by measures of structural improvement: consolidation of holdings, better conditions of tenure, agrarian reform, research, education, availability of credit, &c.

If these measures should not prove sufficient, then a regional policy aiming at the economic development of certain regions would have to be followed, for instance in the form of better transport facilities, creation of new possibilities of employment in rural areas, &c. Finally if neither structural nor regional measures prove sufficient, then measures in the field of social policy will have to be taken in the form of supplementary payments on income. These payments, which

are not deficiency payments, the latter being related not to income but to price, should be regional, temporary and degressive.

They have to be limited to the regions and farms which are in difficulties, and they should be paid only to the extent that can be justified on social grounds, or to the extent required for adapting the farms to the changes in the market and price situation in the Community.

In order to prevent the specialization of production being endangered, all these measures will have to be examined by the Commission during the transitional period.

B. Aspects of Development of General Prices and Production Costs

Farm incomes, however, are not only determined by prices, but also by changes in the general price level and by production costs. Changes in the general price level will be determined on the basis of the general cost-of-living indices (excluding changes in rent).

In order to avoid indexation of all costs, the Commission has proposed that only changes in the price of the main items in production costs should be taken into account when prices have to be fixed; the Commission suggests that these main items would include fertilizers, insecticides, concentrated foods, machinery and other equipment, services, fuel and power, and wages.

Any changes in the prices of these items will have to be given due weight when prices are fixed. A rise or fall in wages will have, for instance, more effect on the price of milk than on the price of wheat, which in turn would be more sensitive to changes in the price paid for fertilizers or equipment.

Criteria based on balance of output and demand

Production policy in different Member States of the Common Market has undergone only limited adaptation to changes in prices, that is, to changes in demand. This may lead to a surplus of some products in the Common Market itself. Since this must be avoided, one of the groups of criteria which the Commission has formulated is concerned with the balancing of output and demand.

The Commission has therefore proposed that price policy should be used to create and maintain a balance between production plus imports on the one hand and demand (internal consumption plus exports) on the other.

The balance should concern not only overall supply and demand in agriculture, but also the various groups of products and the different products individually.

This means that an endeavour must be made to achieve the best possible balance between:

- (i) vegetable products and livestock products,
- (ii) wheat and coarse grains,
- (iii) barley and rye,
- (iv) beef and dairy products.

Since for reasons of commercial policy it is essential to maintain both exports to and imports from third countries, the action taken to achieve this balance must allow for the situation outside the Common Market as well as for the situation within it. This means that although preferential treatment for Member States (which is a feature of any customs union, both the Common Market and others) should exist, price policy should not be used in an effort to satisfy internal demand completely from internal sources. At the same time, prices should not be fixed at world-market levels. Differences in productivity between the Common Market and some countries outside it—differences mainly due to the Common Market's agrarian structure, which in many cases can and will be improved—do not allow for this, for it would undermine the policy on farm incomes mentioned above, the more so as prices on world markets are often distorted and do not give a true picture of the real economic situation.

In other words, there will be no complete isolation of price policy from what happens outside the Common Market area, nor will prices be related completely to all changes in world-market prices. What should, however, happen is that, in fixing the price for a given product, the situation and trend on the world market in that product (or in others which compete with it) should be taken into account to the extent that they reflect the true economic situation. This can be done by creating and maintaining a certain relationship between prices in the Common Market and the prices at which the most efficient producers in the outside world can offer the product in sufficient quantities.

If, as a result of the existence or the expectation of a heavy surplus in a given commodity, the prices to be received by efficient producers outside the Community were relatively low, the Community might be expected to fix prices at a lower level than if the said producers were,

as a result of the existence or the threat of a shortage, receiving relatively high prices for their produce.

While an endeavour is being made to attain a balance between consumption and production in such a way that due consideration is given to the international situation, some degree of specialization will have to be established within the Common Market. It is indeed one of the objectives of the common agricultural policy to create a structure of production which corresponds as fully as possible to the natural and economic conditions prevailing in agriculture.

This is why the Commission's proposal stipulates that in fixing target prices or similar prices their absolute levels and the relationship between the levels for the various products should be such as to promote a specialization consonant with the structure of the economy and the natural conditions found in the Community.

It is proposed that, as a guide to the success achieved in reaching these ends, the Commission should draw up a balance-sheet showing the trend of production, of consumption and of external trade in the items for which prices are fixed. The results would be communicated to the Council of Ministers, to whom the Commission would also suggest, in the light of the above data, the production targets which might be aimed at.

Criteria based on the trend of the economy

In fixing prices it must be remembered that price policy will have to contribute to the gradual achievement of the objectives set out in Article 2 of the Treaty of Rome, where it is stated that 'it shall be the aim of the Community, by establishing a Common Market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increased stability, an accelerated raising of the standard of living, and closer relations between its Member States'.

It should also be kept in mind that the items for which prices are fixed are of great importance in determining a farmer's income. The fixed prices are indeed not only of significance for the products directly concerned, but also for many items, e.g. livestock products such as pigmeat, eggs and poultry, for which there is no direct intervention in price formation. The production costs of these items are in the long run more or less equal to the cost of the raw materials used, plus the cost of conversion. Since fixed prices are of such importance

for a farmer's income, and since agricultural income has great repercussions upon the development of the economy as a whole, there is—from this point of view—much to be said for relatively high prices for agricultural products.

Care must, however, be taken to ensure that the target prices set—and the resultant real prices—for an important range of agricultural products are not so high that consumption suffers or that the development of the economy is endangered. A rise in the price of food has direct repercussions on the cost of living and so leads to a demand for higher wages in the non-agricultural sector; these in turn affect production costs, and this again may lead to a further increase in agricultural prices. This vicious circle should be avoided as much as possible, not only for economic but also for political and psychological reasons. The latter in particular are of the greatest importance, and are often the principal cause of many difficulties.

Another point to be taken into account in fixing prices is the impact certain price levels will have on costs and so on the budget of the Community and expenditure by the Member States. Costs should not be so high that the harmonious development of the economy as a whole is endangered.

This means that the limits for fixing price levels are set not only by the cost to the consumer, but also by the cost to the taxpayer.

Since, as we have seen, a given price level should be considered not only in its effects on the Common Market but in a broader context, and since the level chosen must not hamper the contribution made by the European Community to the harmonious development of world trade, price policy should be used to expand international trade and the prosperity of the world by a better division of labour than exists today.

General remarks

Proposals for the fixing of prices will be based on a yearly review of the situation in agriculture and of the agricultural markets in the Community, and also on a report concerning the financial situation of agriculture. These will be submitted to the Council by the Commission. Each year the Council will check whether and how far the criteria have been applied.

To enable the various criteria to be applied, the review of the situation in agriculture and of the agricultural markets in the Community should contain all the data required, including:

- (a) data on the way income per head is developing for persons fully

- engaged in agriculture and for persons in other comparable activities;
- (b) data on the trend of prices and price indices of products for which no prices are fixed, on the general price level and on the trend of prices of the major elements in production already referred to;
- (c) budgets covering those products for which prices are fixed. These budgets should not only indicate the probable demand and supply situation in the Common Market itself, but should contain estimates for exports to third countries and forecasts of possible intervention on Community markets;
- (d) data concerning the regional trend in production, processing and consumption of products for which prices are fixed. There should be an analysis of the trend in intra-Community trade;
- (e) an analysis of the situation in Community and world markets in products for which prices are fixed and in products which compete therewith;
- (f) an analysis of the repercussions of the proposed target prices on the evolution of the economy as a whole, including external trade, in conformity with the different aspects mentioned above in the section dealing with criteria based on the general trend of the economy.

The Commission will decide what information is required and when Member States should submit it.

Conclusions

The Commission's proposal on the criteria for fixing prices has been submitted by the Council to the Special Committee for Agriculture and to the European Parliament. Reactions from these institutions can be expected during the next few months.

When these criteria are compared with the past practice of the various Member States, it will be evident that the need to take *all* of them into account is a great advance on what has happened in the past. This means that it will no longer be possible for price policy to be directed towards one goal only.

Taking the various groups of criteria individually, it should be stressed that particular importance is attached to the fact that a distinction is now made between price and income policy and that price policy is now to be selective, in the sense that it will be used to ensure that in the course of time the price factor alone will make it

possible for persons working on viable and well-managed farms—but not on all farms or even on average farms—to earn a fair income.

For other farms, measures should be taken not through price policy (as, for instance, by applying different prices) but through structural and regional policy, and in the form of social aid; this aid must be clearly distinguished from deficiency payments, as it is not related to prices but to income.

Very important is also the balance which should be aimed at between production and consumption in the broadest sense; in recent years this aim seems to have been completely neglected in various Member States.

Another point which has in the past often been overlooked is the effect prices for agricultural products have on the development of the economy as a whole. The Commission's proposals pay particular attention to this aspect, an attention which fits agriculture clearly into the broader economic context.

In fixing these criteria the Commission's proposals define the economic field within which a political act—the fixing of the price level itself—will occur. In making these proposals the Commission has done everything possible to avoid the disadvantages involved in the past practices of the Member States and to enable the price of agricultural products to fulfil its economic role, which is: to guide, to support and to create economic possibilities.