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Agriculture and the European Common Market

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REVIEW ARTICLE

A NOTE ON THE 'PISANI PLAN'

In November 1961 the French Minister of Agriculture, M. Pisani, and the then French Minister of Finance, M. Baumgartner, in F.A.O. and G.A.T.T., respectively, presented the outlines of a plan for agriculture and trade in agricultural products. Thus far, this plan has not been debated internationally nor has it, to my knowledge, been professionally reviewed. Since its subject is agricultural trade, and since it has become almost the official position of at least one of the Common Market (E.E.C.) partners, its importance to international economic policies is obvious.

The Plan is an outgrowth of the problem which the proposed agricultural policy of the European Common Market presents for the 'outside' countries, and of the desire on the part of the French authorities to find a formula that will help outside exporting countries to become reconciled to the gains French agriculture is hoped to make in the markets of the E.E.C.

The following discussion presents the elements of the Plan and some reflections upon it.

I. *The Plan*

The partial expositions of the Plan thus far published start with a critique of what is called the present organization of world markets in agricultural products.¹ This critique contends that no developed country can afford to abandon its agriculture to the prices ruling in the so-called world market. Some important commodities are internally subsidized or price-supported everywhere and divorced from export pricing; in the conditions of a mixed farm economy, this gives support to agriculture as a whole. Hence, the concept of a 'world price' has lost all meaning. In present circumstances, no one could say what world prices should be on any rational basis; their present levels can only be interpreted as the balance of countervailing influences and historical continuity.

It is ridiculous, exponents of the Plan point out, for example, that France should subsidize its industrial competitor, Britain, through deliveries of butter at half its cost. It is equally ridiculous that the United States should furnish Germany grain at low prices only to complain later that Germany's currency reserves have grown at the expense of the U.S. balance of payments. And it is the height of folly for Western exporters to engage in a price-war in order to furnish, at the lowest price, the cereals needed by Communist China. Competition among a number of important exporters has generally made for 'world prices' below the

¹ For an outline of the Plan, see Michel Woimant, 'L'Organisation du Marche Mondial', in *L'Agriculture Française, La Nef*, Nouvelle série, cahier n° 11, July-September 1962. Also M. Pisani's communication to the Council of Ministers of E.E.C., at Brussels, 29 June 1962 (reproduced in *Informations et documentations Agricoles*, Paris, No. 13, 15 July 1962). I also understand that there exists an outline circulated in April 1962 in the seminar of M. Van Ruymbeke at the École Nationale d'Administration giving a description and explanation of the Plan.

costs of production that would allow for reasonable incomes for families on well-managed farms.

On the other hand, none of the developed countries now buying so cheaply in the world market would expect its own producers to supply their consumers at such ruinous prices. And where they do not support farm prices directly, they let consumers pay through taxation for farm subsidies. They have, therefore, little reason to object to higher import prices.

The exponents of the Plan further contend that the developed countries have not sufficiently explored the possibilities that exist for equilibrating supply and demand. Liberalist policies, such as have been suggested for agriculture as for industry, are socially and politically impossible. International commodity agreements of the traditional type have proved incapable of dealing with the problem of surpluses. And there has been inadequate exploration of the possibilities for developing outlets for food in the poor countries which could not now afford to pay for additional imports.

If efforts at surplus disposal for economic development in those poor areas remain confined, in the main, to one large donor country, there is the danger of encroachment upon commercial transactions. If other donor countries come into this trade, there is the danger of 'food aid competition' and an oversupply even for aid purposes: food aid must be given in terms of what is traditional or can be made acceptable in the needy areas; it may even be that surplus output will have to be converted into different commodity compositions; and this can only be done by an efficient, joint *international* effort in which several countries participate. Also, there must be firm assurances, within firm agreements, that recipients of food aid can count on a long-term supply that will not be withdrawn at short notice.

The Pisani Plan takes its cue from this critique of the present agricultural trade situation. The most important elements of the Plan can best be summarized under two headings: (1) Prices, and (2) Demand and Supply Adjustment.

1. *Prices.* The essence of the proposed price policy is an upward adjustment of world prices for commercial trade that would eliminate all export subsidies. The international price would be raised to the level of import parity for the producer prices in the most important consuming region—the European Economic Community (E.E.C.) or Common Market.

Such an action, to be taken in an international agreement, say, on grains, would also serve to hold prices within E.E.C. more readily to reasonable levels. This point is made quite clearly in the expositions of the Pisani Plan, but usually overlooked by critics of the price proposals. Other commercial importing countries would aim at identical price goals, so that only *one* international price would rule all commercial ('solvent') markets. And just as export subsidies would disappear, there would be no scope for import levies in the importing areas.

The arrangement would give exporting countries higher sales proceeds, even at lower quantities of trade; the excess receipts would be available to finance programmes of surplus give-away to needy nations. It makes no sense for exporters to sell at lower prices if any difference is to be skimmed off, by importing countries, through variable levies—as is now the case in E.E.C.

2. *Demand and supply adjustments.* The proposals recognize that, at the new prices, world-market equilibrium might well be threatened unless something is done with respect to supply management and, especially, on the demand side to create new outlets for surpluses.

With respect to supply management the proposals envisage a special arrangement with those exporting countries like Canada, Australia and Argentina who either pass their export prices back to their producers or might be inclined to do so even when international prices are raised. The Plan foresees that these countries, in return for the advantage of higher export prices, would commit themselves not to pass on to their producers any price increase that might induce an increase in production (export taxes). This, too, is a point that critics of the price proposals usually overlook.

For other exporting countries, such as the United States, with relatively high support prices, the Pisani Plan would foresee a continuation, or even tightening, of supply control, as well as a price commitment. It is not clear to what extent the Plan contemplates supply control in importing areas, including E.E.C. (with France as part of E.E.C.), other than what might result from the setting of reasonable producer-price levels.

So far as demand adjustment is concerned the Plan simply postulates that any remaining or inevitable excess of supply over commercial demand should be used for a massive concerted international programme of food aid. It believes requirements for food aid to be almost limitless, provided a determined effort is made to educate consumers in those countries to eat more of the West's traditional foods, and provided also that the West is willing to produce the commodity composition wanted by non-commercial demand as diligently as it produces the composition wanted by commercial demand.

II. *The policy intent*

The French Plan has a number of ideas that must be considered as good and practicable from any reasonable point of view. And it has a measure of logical elegance that gives the reader and critic the joy of addressing himself to suggestions that are intellectually provocative. There are other ideas in the Plan which, if properly modified or supplemented, might well serve as practicable provisions for an international compact. But there are still others that could neither bear rigorous analysis nor pass the test of reason in the context of international co-operation.

From the standpoint of France's national interest, the Plan is calculated to serve the purpose of gaining and expanding lucrative markets for French agricultural exports. There can be no question about this foremost aim of the French initiative. The French government has often asserted that its agreement to partnership in the E.E.C.—with alleged French 'sacrifices' on the industrial side—was predicated on agricultural arrangements favourable to French agriculture.

Higher international prices would benefit France's agricultural exports to countries outside the E.E.C. where they now fetch only the world price. This is an important aspect of the Plan as non-E.E.C. markets have, at least until recently, taken a very large share of French agricultural exports.

Furthermore, implicit in the price-raising proposals of the French Plan is the suggestion that countries turn their attention from the *quantity* of trade to the *value* of trade as the real thing that matters. And there is a strong implication to the effect that it would be more realistic for outside exporters to seek maintenance of the value of their shipments to the E.E.C. rather than maintenance of quantity—which, in any case, would be out of the question.

Again, this would serve an eminently national interest of France, since it would keep open the possibility of commercial disposal within E.E.C. of stepped-up French output. France would have access to E.E.C. for larger quantities and values of exports; outside exporters would perhaps realize as much value for these exports as before. France would thus gain and 'outside' exporters might avoid losses; but the importing areas (both inside and outside E.E.C.) would have to foot the bill in terms of higher import prices.

While there are these favourable aspects of a world price adjustment so far as France is concerned, the Plan also asserts that it would benefit 'outside' exporters by providing them additional means (through higher prices) from which to finance the give-away of surpluses that cannot be disposed of through commercial channels. Whether or not there would be this effect would seem to depend entirely on how much in total value of exports—at higher prices for smaller quantities—those countries would gain. If they just managed to *maintain* their export value, nothing would be left to finance the give-away; it would have to be financed as heretofore. And, in any case, if there were such an increment of value it would again come out of the pockets of the commercial importing countries inside and outside E.E.C.

It should be noted, however, that under-developed countries, as beneficiaries of food aid, would stand to gain under the French Plan—provided they could use effectively more surplus foodstuffs than they are now getting. For, from the French Plan's operation, more surpluses would result for food aid transactions; and longer-term commitments and possibly adjustments to a better composition of food aid availabilities might open up additional aid outlets.

III. *Some comments*

There can be little quarrel with the Plan's thesis that present world prices of important agricultural products have no rational basis and that there is nothing sacrosanct about them. But when it comes to justifying the proposal that world price levels be set at the standard of 'the most important commercial importing region' the Plan's economics becomes flimsy indeed.

'The classical theory of the markets indicates that the price should establish itself at the level of the production costs of the marginal producer, in other words, at the cost level of the production which is the least profitable, yet indispensable fully to satisfy commercial demand. . . . This marginal producer is, for all practical purposes, the producer in the principal commercial importing region, the European Economic Community, enlarged by Great Britain. . . .'¹

This argument breaks down upon consideration of the fact that the supplies of producers with lower production costs go begging for non-commercial disposal only because they are prevented, by government policies, from filling commercial

¹ Michel Woimant, loc. cit., p. 122 (author's translation).

demand reserved for marginal producers in 'the most important commercial importing region'. The argument also evaporates when its authors suggest that the higher world prices should not be passed on to producers in low-price exporting countries in order to prevent an increase in production there—an increase which, presumably, would to some extent determine which price and which country or producer in which region is the marginal one.

I do not believe that the good sense of the proposal of higher international prices can be helped by such reasoning. The question is not one of economics, but one of economic policy, and I am satisfied that there is a lot to be said in favour of such a policy. But before a final judgement can be reached, there must be a thorough international debate from a number of points of view.

First of all, the question of raising the international price within the framework of a commodity agreement (supposing that such an agreement can actually be brought about) would be a matter of serious concern to those commercial importers outside E.E.C. such as Japan and a few other countries who have hitherto been able to import at relatively low prices. The whole question is not just one of logic but also one of historical continuity—a principle that is of greater practical importance than the French Plan appears to contemplate.

Furthermore, the Plan makes no reference to the problem of how to handle, say, the transition of trade from give-away to commercial trade in certain underdeveloped countries; or how to handle the coexistence in an underdeveloped country of give-away imports with commercial imports. This latter case is by no means unrealistic; it is precisely such coexistence that has led in U.S. surplus disposal operations to the so-called 'normal marketings' concept.

Another problem is the international pricing of commodities other than grains. Any agreement on grain prices that would raise international prices significantly might have far-reaching effects upon price formation for other agricultural products, especially livestock products, both in domestic trade and in export trade. It might completely change present relationships in international competition. This is another point at which the factor of historical continuity comes into the picture as one of the problems that must be considered both with respect to competition and with respect to possibly restrictive effects upon demand.

There are other aspects which should be weighed. Among them are the possible analogies that other countries may draw for the export pricing in international trade of their own products. If the rich countries, as it were, improve by deliberate action their terms of trade for exports of grains, why should poor countries exporting, say, coffee not be entitled to a similar arrangement? It is true, of course, that in the case of grains, being food or readily convertible into food, measurable additions to normal commercial demand could be and, to some extent, are being brought about by special food aid programmes—a supplementation of commercial demand which could not be said to be possible in the case of coffee. This very consideration points up one of the weak aspects of the French Plan, namely, the lack of clear-cut recognition not only of the need for supplementation of *demand*, but also of the need for effective *supply* management in both exporting and importing areas.

No economist will disagree with the French Plan's contention that there is no particular virtue in any of the present international grain price levels, nor in any

of the national price levels; and that, if prices are being managed or otherwise set or guided by a multitude of policy judgements and influences, they will rarely be such as to perform properly their normal function of equalizing supply and demand. Hence, something needs to be done to substitute for this function.

The French Plan primarily concentrates on additions to demand through food aid programmes for less-developed countries. Even those sympathetic to the idea must urge the utmost care not to overestimate the 'effective' potential for surplus disposal. To deal with the supply side as well is a *sine qua non* for realistic policies.

Again, thorough international debate of these issues is essential for a mature judgement of the Plan. The French idea of supplementation of demand through food aid might well be linked to effective supply control. For example, it might be possible to bind all exporting and importing countries in an international agreement, to place into stocks either for holding or for surplus disposal, agreed amounts which would represent the best possible estimate of the quantities which cannot be disposed of commercially of the export supplies available at present levels of production. Moreover, there might be an arrangement to the effect that any increment over and above present production, or production in an agreed reference period, should be so neutralized.

The amounts that should serve as a base, so to speak, for each country would, of course, be the result of negotiation and it should be possible to make allowance for justified increases here and reductions there, in accordance with the basic idea of reasonable arrangements. However, the general plan would still be one of linking the implementation of food aid with supply control. And there would be other possibilities for effective supply management, either directly by producers, or by governments.

In taking a position in international negotiations, France may well wish to start out with a claim for exemption from supply control. But it cannot expect that other countries will necessarily agree to so one-sided a proposition. There will, in the end, have to be a compromise. The French Plan is not too clear on this point. The French hinted that the United States and France have been the only countries practising effective supply control—the United States by its well-known restrictions and France by limiting its price support to a specified 'quantum' (of wheat, for example). If this were the type of supply control envisaged for France, its acceptability from the international point of view would depend upon the quantitative price and output relationships contemplated under it; and it would also depend on how it would fit the *general* system to be negotiated.

With respect to internal producer prices in importing areas like the E.E.C., the French Plan, as indicated, contemplates import parity with international prices at or near present French levels. Realistic approaches will be needed to explore additional possibilities—both as to the international level and with respect to producer prices in importing countries.

They will, no doubt, have to concern themselves with the fact that unification of producer prices in the E.E.C. is a most thorny problem and probably impossible without the acceptance of a price level that would represent an increase in overall protection and might induce inordinate expansion of output in the Com-

munity. A mixed E.E.C. system of *unified market prices*, say, at the French level, with *differential producer prices* made possible by producer subsidies in those member countries where the French level proves unacceptable might be the ultimate solution.¹ International scrutiny of the Pisani Plan cannot shy away from a discussion of the problems it raises, whether they are expressly stated or only implied.

Whatever course European integration will take, the twin problem of the need for agricultural protection and the need to maintain international trade in agricultural products requires international decisions and action. Whether Britain comes into E.E.C. or stays outside, whether the whole of E.F.T.A. becomes somehow associated with E.E.C. or confronts E.E.C. jointly with all America, the British Commonwealth, and Japan, a code for agricultural trade on a world basis will prove necessary. The Pisani Plan is a contribution to the discussions that are overdue.

J. H. RICHTER

¹ For a discussion of this problem see my article in *KYKLOS*, vol. xvi, April 1963.

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