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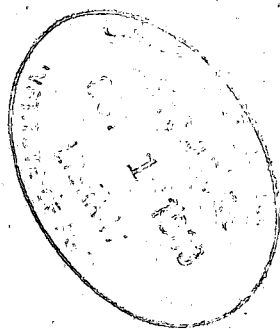
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# **Agriculture and the European Common Market II**

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## CO-ORDINATION OF STRUCTURAL POLICIES FOR AGRICULTURE—THE ROLE OF THE EUROPEAN ECONOMIC COMMUNITY

### *I. Introduction*

ON 4 December 1962 the EEC Council of Ministers adopted the Commission's proposal on the co-ordination of the Member States' structural policies for agriculture.<sup>2</sup> Thus the basic decisions and regulations on the common organization of the agricultural markets formulated early last year—on 14 January 1962—were followed by a fundamental decision on agricultural structure before the year was out. Viewed as a whole, the decisions in this first year quite plainly show that the common agricultural policy does not merely take in market and price policies, but that structural and social policies are also essential components of it; these are the four pillars on which the EEC Commission's proposals of 30 June 1960 for working out and putting into effect a common agricultural policy<sup>3</sup> were built. But the decision on the co-ordination of structural policies carries with it further implications: that the European Economic Community is intended to be more than a mere customs union, and that it is ready to assume responsibility for the reform of farm structures to meet the needs of economic integration.

The Council's decision affords an opportunity for considering from the Community angle some of the fundamental questions of agricultural structure and of what can be done to improve it. We must ask ourselves:

- (a) What are the deficiencies in agricultural structure?
- (b) How can structural reforms be carried through?
- (c) Why should Community responsibility extend to this sphere?

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<sup>2</sup> Published in the official gazette of the European Communities, No. 136, 17 December 1962.

<sup>3</sup> EEC Commission—Proposals for working out and putting into effect a common agricultural policy in pursuance of Article 43 of the Treaty establishing the European Economic Community. Brussels, 30 June 1960, part ii, p. 6.

- (d) On what lines should farm structural policies in the EEC be co-ordinated?

Needless to say, these points—each of which really needs to be gone into very thoroughly—can only be dealt with somewhat briefly in this paper.

## II. *Deficiencies in agricultural structure*

The difficulties already begin in defining the term 'agricultural structure'. According to F. Dovring's well-known book<sup>1</sup> 'agrarian structure is a somewhat vague but generally used term for the whole institutional framework within which agriculture does its work'. In arriving at decisions on the co-ordination of structural policies, the EEC Commission also attempts a definition: Agricultural structure means 'the whole body of production and living conditions in the agriculture of a given region. This structure sets a limit to the possibilities of combining the factors of production and of organizing the farm, and it determines the living conditions of the population. Consequently, the structure of agriculture is one of the factors which determine the level of productivity that is attainable in a given market and price situation, the incomes and, to a great extent, the social conditions of those engaged in agriculture.'

A striking feature of this definition is that the notions of productivity and income are given cardinal importance; however, these notions are the fundamental and expressive objectives of the overall agricultural common policy, in which structural policy has a great role to play. For, with the exceptions of market and price policy and very simple changes in farm management, it has to cope with the whole comprehensive and long-term process of adaptation and re-adaptation of agriculture, including the raising of the social and economic status of the farming community.

Deficiencies in agricultural structure could be described in terms of individual technical criteria alone. But in view of what has gone before, we shall confine ourselves to a comprehensive formulation in economic terms: deficiencies in agricultural structure manifest themselves in relatively low farm incomes, caused by a disproportion between the agricultural labour force and the elements of farm production and income available in a given region. F. Dovring calls this the 'man-land ratio'; similarly, the European Confederation of Agri-

<sup>1</sup> F. Dovring, *Land and Labour in Europe, 1900-1950*, The Hague, 1956, p. 7.

culture at Palermo in October 1959 referred to 'a lack of balance between soil and labour'.

This general formula can, of course, be broken down into innumerable separate components but there is no getting away from the polar relation between 'labour'—in both the quantitative and the qualitative sense of the term—and 'income-determining factors', e.g.:

- (a) too small farms; extensive fragmentation of holdings; inadequate road facilities; lack of water control; unsatisfactory building and housing conditions in overcrowded village sites;
- (b) high proportion of agricultural workers to total active population and latent underemployment; relatively low standard of vocational training; methods of production, based mainly on physical labour with comparatively small capital investment;
- (c) use of marginal farmland; choice of crops and farming methods dictated by the labour surplus rather than by natural and economic conditions of the region;
- (d) only a small proportion of output used to supply the regional market so that the latter often fails to come up to the quality standards demanded; unsatisfactory marketing arrangements.

These general remarks<sup>1</sup> become more cogent in a regional context because the individual criteria, which often interact, recur cumulatively within a region. This introduces into the man-land ratio—meaning in the last analysis the functional efficiency of farming—a regional rigidity that definitely impedes farm adaptation.

### III. *Development trends in agricultural structure*

Almost every Western country is finding great difficulty in fitting agriculture into the general economy and the community at large in a way that is both socially and economically satisfactory. And it is precisely the industrialized nations that are faced with the need to overhaul their agricultural structure. For, in many cases they have made it an article of their agricultural policy to bring the *per caput* income of the farming population 'closer to the level obtaining in other comparable occupational categories'—a concept which figures in the EEC Commission's proposals for the common agricultural policy, not as an automatic safeguard, but as a guide-line for action.

<sup>1</sup> This comprehensive interpretation of the concept of agricultural structure also corresponds to the division of work within the Agricultural Structures Directorate of the Commission: Analysis of production conditions—Productivity in agriculture—Technical improvement of farm structures—Farm equipment—Social problems.

To make economic sense, such a comparison of industrial and agricultural incomes must imply that the principle of rationalization of industrial society also applies to the structure and development of farming. Otherwise it would be futile.

What form does the process of adjustment and structural reform take in agriculture? There are three possible approaches. First, on the technical level, reforms of land tenure, consolidation of holdings and improved building and housing conditions; secondly, improved training for the farm labour force remaining in agriculture (human investment); and thirdly, switching agricultural workers to other sectors of the economy where employment possibilities and productivity are higher. As in the analysis of structural deficiencies, particular trends can be noted:

- (a) The number of units farmed as a main occupation and the total farm labour force are declining. The cultivated area per worker is increasing.
- (b) *Per caput* output and productivity are rising. Rationalization is taking place through reduction of the costs of production, with higher capital investment per worker for the remaining labour force.
- (c) Poor farmland with low labour productivity (marginal land and farms) is being turned over to non-agricultural uses.

These trends are plainly visible in all Member States, although of course with big differences. They are mainly attributable to general economic growth and the consequent shift from agriculture to industry—a silent process of redeployment backed by government measures designed to improve farm structures (land consolidation, road-building, inducements to settle elsewhere, &c.) and to strengthen the economic resources of rural areas. This, however, is not without its problems:

1. The uneven rate of economic growth from one region to another determines the need for adjustments to be made by areas with deficient agricultural structures, i.e. with latent underemployment. Such deficiencies very often go with a low rate of general economic development. If new jobs in industries are mainly created in old-established industrial areas—which nearly always already have a sound agricultural structure—there will inevitably be mass internal migrations.

2. It is doubtful, however, whether a downright exodus from the land would bring about the reform of agriculture or even be in the

interests of the economy as a whole. If the backward areas with deficient agricultural structures continue to be cut off from the benefits of economical expansion, only at best a one-sided adaptation of agriculture will be possible, at the cost of great social hardship in the form of mass migration from rural areas. On the other hand, an influx of capital into the backward areas and their industrialization would foster the necessary process of shifting agricultural workers over to other occupations without their having to break completely with their former milieu.

3. But the structural development of agriculture should not simply revolve around industrialization—a *passive* reform. The real need is to find an *active* role for agriculture to play in development areas and to back this up with appropriate measures. The concept of a 'concerted policy' for the harmonious development of all sectors of the economy, does away with the outmoded idea of industrialization as the panacea for structural deficiencies in farming. Such measures for stimulating development inside the agricultural economy must, of course, be aimed at producing farm output with a smaller but more highly skilled labour force; it must also be realized that the scope for higher output is relatively small so that the emphasis must be on lowering production costs.

4. The structural reform of agriculture is clearly bearing fruit in all the EEC Member States. But it is doubtful whether this shift of labour to other sectors and the reorientation of agriculture through appropriate measures have been proceeding fast enough (and can be maintained at a sufficient pace in future) for the gap between farm incomes and comparable incomes in industry to be closed, or at any rate prevented from widening still further.

#### IV. *The responsibility of the Community*

This review of the deficiencies of agricultural structure and of trends in structural development leads one to ask which responsibilities the Community should take up in the field of agricultural structure and whether this responsibility requires the institutions of the Community to take definite action. The facts may be stated under the following two heads:

##### 1. *General economic considerations*

The preamble to the Treaty of Rome stipulates that the harmonious development of Member States' economies should be ensured 'by

diminishing both the disparities between the various regions and the backwardness of the less favoured regions'. The integration of highly industrialized countries of Europe means that more rapid take-offs are being achieved in a bigger domestic market, and these are reflected in more powerful economic growth. In this process, Europe's commercial and industrial areas will not only retain their national 'historical priorities', but the economic attraction which they exert on Community level will be accelerated. The result of this will be the aggravation of regional disparities; the main reason for this is the lack of competitiveness of backward farming regions together with the lack of mobility of their population. No solution to this can be found in the *laissez-faire* of regional economic growth and internal migration;<sup>1</sup> rather must an economic policy be shaped that takes into account and promotes the development of backward areas in the setting of the economy as a whole. Some parts of the EEC Treaty consequently lay considerable stress on regional policy. Under Article 80 on transport, the Commission may authorize support rates, taking particular account 'of the requirements of a suitable regional economic policy (and) of the needs of underdeveloped regions'; Articles 92 and 93 permit state aids, including those that are regional in scope, provided they are or may be deemed to be compatible with the Treaty; Article 226 provides for safeguard measures where the economic situation of a given region may be seriously affected. In the title on economic policy, however, there is no section dealing explicitly with regional economic policy.<sup>2</sup> Mention should also be made of the European Investment Bank and the European Social Fund. The activities of both are of great interest to regional economic development; it is noteworthy that consideration has recently been given to the question of how far the European Social Fund may take action to counter latent underemployment in agriculture.

<sup>1</sup> Conditions in Italy provide a good example. A SVIMEZ survey assumes that by 1975 the industrial North will need some 2 million more workers whereas by the same time about the same number of workers will be available as labour surplus in the agricultural South. The simple shifting of such masses which might include whole social strata could result in a better *general* economic balance, at the expense, however, of stronger *regional* imbalance. It is, therefore, clear that what is needed is not only a migration of workers to more attractive industrial areas but also a migration of capital to the less-favoured regions, which would both stimulate a functional economy and a functional society through a differentiation of the occupational structure.

<sup>2</sup> In the Community's *Action Programme for the Second Stage* (EEC Commission, Brussels 1962), chapter vii ('Economic policy') also deals with regional policy (pp. 81-85).



Of course it could be maintained that these individual articles of the Treaty are no more than concessions to the Member States in the matter of regional subsidies, and that only in certain cases is Community assistance granted without decisions having to take into account the general economic situation at Community level. There are certainly great difficulties in this field of economic policy. But in deciding whether in a given case interregional competitiveness is distorted or promoted we must be guided by a definite conception of the harmonious regional development of the Community economy as a whole.

## *2. Agricultural economic considerations*

The EEC Treaty provides for the working out and putting into effect of a common agricultural policy. This means that the separate agricultural economies, which have been fitted into very varied systems of agricultural policy by the individual states, and which have been differently protected from one another, must now compete on a common domestic market. Nor must it be overlooked that this is an integration of agricultural economies (viewed from the regional and the national points of view) whose competitive position varies widely. One of the reasons for this may be the serious deficiencies to be found in agricultural structure and employment. Another point that must not escape our notice is that the previous market and price policies of the Member States produced very disparate economic assessments of agricultural structure and influenced structural reform in varying degree. For instance, a policy of high farm prices, which has maintained the current price situation for a long time, artificially conceals deficiencies in agricultural structure and provides much less incentive for modifications in structure and organization<sup>1</sup> than in countries whose imports and exports involve them much more deeply in international trade. Lastly, the degree of self-sufficiency in food plays a large part in the orientation of market and structure policies. For several countries the transition to the Common Market has altered the situation not only in that there is no longer any priority for home production but also in that there is no further scope—or not as much scope—for increased output. Thus structural reform must more than hitherto be prompted by a concern to reduce production costs.

<sup>1</sup> Such incentive can, however, also be given from outside agriculture through big increases in industrial income which always is—whether agricultural prices are high or low—the term of reference for the relative standard of living in Agriculture.

It is clear from the foregoing that the problems of improving agricultural structure are closely connected with the creation of a common market and the development of a common agricultural policy, particularly the common organization of markets in farm products. Whereas the six countries have hitherto managed their agricultural structure in different ways and within the framework of their own market policies, it is now essential that they see it within the new context of commonly decided agricultural market regulations.

- (a) A common price level for the main products must evolve during the transition period.
- (b) A uniform set of market regulations has already come into operation for the common market organization of several agricultural products and will be established for a further number of them.
- (c) The distortion of competition through subsidizing either agricultural products or the elements influencing their production costs must be eliminated over the same period.

As a result of these considerations, on both general and agricultural economics, we can say that there is a close interaction both between the development of the economy as a whole and agriculture, and also between the organization of agricultural markets and farm structure. It is therefore evident that policy on agricultural structure should be considered as an essential element in the common agricultural policy.

#### *V. Co-ordination of Member States' policies on agricultural structure*

According to the EEC Treaty the creation of a common market for farm products requires common rules of competition, co-ordination of the various national market systems or a European market system. In general—as can be seen in the decisions of 14 January 1962<sup>1</sup>—decisions on agricultural markets are to be taken at Community level. Without such a central decision and the use of uniform instruments, which during the transition period will be substituted for the diverse forms of national intervention, the creation of a real domestic market is not possible.

<sup>1</sup> Official gazette of the European Communities, No. 30 of 20 April 1962. Translation in English: European Economic Community Commission. Regulations and Decisions in the Field of Agriculture. Adopted by the Council on 14 January 1962. Only the texts in the official languages of the Community—French, Dutch, German and Italian—can be regarded as authentic.

On the other hand, Member States' policies on agricultural structure are to be *co-ordinated* at Community level.

### 1. *The meaning of 'co-ordination'*

The Commission's proposal to the Council of Ministers that the farm structural policies of Member States should be merely co-ordinated was not fully approved in all quarters; some members of the European Parliament, for instance, were in favour of the Community having central authority also in this sphere.

This naturally raises the question of what 'co-ordination' really means. The co-ordination of farm structural policies means that Member States pledge themselves to orientate their policies towards the aims of the common agricultural policy and in doing so to advance according to certain rules. In effect, this co-ordination must involve some restriction of the competence of Member States—not because of the competence vested in Community institutions, but because the correlation between the various spheres of the common agricultural policy logically sets 'Community limits' on national structural policies for agriculture. This means that the goals of structural policy in the Community will have to be clearly defined, based on practical solutions to actual problems, that the limits to the action of structural policy in the Community will have to be determined, and that both goals and limits will have to be adopted under Article 189 of the Treaty. The Member States are free to select ways and means of attaining these obligatory aims in the context of co-ordination as here understood. Co-ordination in this sense may thus consist in orientating, harmonizing or stimulating the actions of Member States.

### 2. *Co-ordination in practice*

As we have said, the development of agriculture and the improvement of its structure are very closely linked with the expansion of the whole economy. This means that structural policy, to be effective, must not be viewed in isolation within the narrow sphere of agriculture. The co-ordination of Member States' structural policies will have to take into account, go along with, and even to make use of the 'independent forces' of the economic process as a whole: the long-term sales prospects for farm products which set the limit for the formation of farm incomes; and the regional distribution of economic growth, which makes it possible for farm workers to move into other sectors without migrating. For the process of adapting agriculture we are

faced—as in other fields of economic policy—with the ‘magic triangle’ with its three sides: technical measures to improve agricultural structure—development of agricultural markets—expansion of regional economies.

This means that technical measures in agriculture must be capable of evaluation in market terms if they are going to result in an effective raising of farm incomes. Stimulation of land mobility, which is very often an essential condition for increasing the man-land ratio, cannot be expected without improved occupational mobility. The co-ordination of structural policy cannot ignore the reality of agricultural markets and regional economic growth.

The Council decision of 4 December 1962 concerning the co-ordination of Member States’ policies on agricultural structure explicitly refers to this ‘magic triangle’ where it says that structural policy must be conducted in relation to regional economic development and to the trends on agricultural markets. A survey should be made of the nature, geographic distribution, scope and financing of measures taken under Member States’ policies on farm structure and of their effectiveness as regards the objectives of the common agricultural policy and the normal long-term sales prospects for farm products.

The common organization of agricultural markets as an economic reality, together with the facts of regional economic developments, will bring about a factual study and appraisal of farm structural policy and exert determining influence upon the decisions to be taken in this aspect.

### 3. *Instruments of co-ordination*

Community responsibility in this matter is also reflected in the setting up of a Standing Committee on Agricultural Structure by the decision of 4 December 1962. The Committee will be composed of senior officials of the Member States, with a representative of the Commission in the chair. Through this Committee information will be exchanged on agricultural structure between the Member States and the Commission. It will discuss Member States’ structural policies in the context of the ‘magic triangle’ referred to above, linking farm structural policy with market and regional economic policy.

Following the decision the Commission has to submit an annual Report on Agricultural Structure to the European Parliament and the Council. The Report will be in three parts: the analyses of the state

of farm structures and of Member States' structural policies; the efficiency of measures taken by Member States in achieving the aims of the common agricultural policy; information on the co-ordination of structural policies at Community level.

On the basis of this Report, the Commission will, in accordance with Article 43 of the Treaty, submit to the Council its proposals on measures needed to co-ordinate Member States' structural policies.

## VI. *Conclusions*

The Standing Committee on Agricultural Structure began work in March 1963.

The first report on Agricultural Structure of the Commission will probably appear in the middle of 1964. So we may expect in the near future the emergence of a Community attitude to specific problems of Member States' policies on agricultural structure. A balance between market and structural policy decisions should thus be assured; and, in the long term, this should considerably influence the effectiveness of the common agricultural policy as a whole.

The decision of 4 December 1962 also refers to a responsibility of the Community in the financing of improvements in farm structure. It stipulates that the Commission, in making proposals for co-ordination, must take into account the funds available to the Community for financing, in so far as the latter is eligible in accordance with Council decisions. At present the principal enactment on the subject is Council Regulation No. 25 of 14 January 1962 on the financing of the common agricultural policy.<sup>1</sup> But it should be added that the Commission already has, on 27 February 1963, put before the Council proposals for setting up a European Fund for Structural Improvements in Agriculture in addition to the Orientation and Guarantee Fund for the markets and the marketing structure. The European Fund for Structural Improvements in Agriculture will provide substantial support for Member States' efforts to improve their agricultural structure.

This proposal to establish a European Fund for Structural Improvements in Agriculture has to be seen as a necessary complement to the action of co-ordinating farm structural policies: the decision on the co-ordination of Member States' policies works from the top

<sup>1</sup> Article 3 (1 d): '... action undertaken in accordance with Community rules for achieving the objectives set out in Article 39 (1 a) of the Treaty, including structural changes necessitated by the development of the Common Market.'

downwards, setting guiding lines in accordance with the common agricultural policy; the Fund works from the bottom upwards, intervening in Member States' individual projects, guiding them towards the aims of the common agricultural policy and promoting a better regional balance of the economy as a whole. Both activities at Community level thus contribute—from their different points of departure—to making structural policy an integral part of the common agricultural policy. This has been the objective ever since the establishment of the European Economic Community.