

Myths and Realities of the European Green Pool

by

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1. *What does «Pool» mean?*

«Pool» is a comprehensive word. It is used to designate an organisation to which the parties to a price agreement arrange to sell a given product; or an agreement on the maximum quantity to be placed on the market; or an agreement on the sales area assigned to each of the parties. The tasks thus outlined may be enlarged to cover numerous other activities.

The «Schuman plan» offers an example of such agreements in this post-war period. The Schuman plan, however, cannot be compared to the more recent proposals for «pools» such as those suggested for the «European Agricultural Community». The differences between the clearly defined products of one or two branches of industry and the great variety of products of agriculture are too radical to make them comparable. In the case of the Schuman plan the supply is an elastic one, little subject to the influence of natural phenomena beyond human control. The products are supplied, moreover, in bulk, thus differing widely from the highly differentiated character of the products of agriculture.

There are, nevertheless, undeniable analogies between the activities undertaken by the industrial pool and those proposed for the agricultural one.

2. *How the idea of the green pool arose.*

How did the idea of the agricultural pool arise? It arose, we may say, from the deadlock reached in the effort made by several international organisations to increase the volume of international trade in the agricultural field. Widespread scepticism prevailed as to the possibility of lowering customs barriers and repealing quotas and other obstacles that still hinder

the movement of goods, services, labor and capital as between the several countries. Indeed, the presence of small farms, strategic and social considerations have frequently led to the adoption of protective agricultural policies which — though unjustifiable from a purely economic standpoint — would be difficult suddenly to repeal.

Moreover, if we recognise the need of encouraging and assisting a widespread effort to increase agricultural production so as to obtain a decisive recovery of European economy, then it is essential to eliminate uncertainty as to the possibility of selling at remunerative prices the crops obtained under unfavourable economic conditions.

This insecurity paralyses the efforts of the farmers now more than ever when the mechanisation of agriculture calls for large capital investments. Capital is unwilling to finance agriculture when the price movement is subject to great uncertainty. There are therefore limits to the possibility of liberalisation. Each country will continue to grant some degree of protection to its producers so as to assure itself some degree of social tranquillity. What is needed is to decide what the level of this protection shall be.

The recent attempts to form pools for the several products of agriculture under inter-governmental agreements have their origin in the limits facing any movement of trade liberalisation; they are an attempt to overcome such obstacles.

3. *The functions advocated for a joint organisation.*

A policy aiming at the technical progress and rationalisation of agricultural production, so as to raise the living standards of the popu-

lations and confer a complementary character on the economies of the several countries; requires that the «markets be organised» at least for some of the more important staples. In the opinion of its advocates a common organisation — a European «pool» — could: (a) if there were a *scarcity* of the staples, bring together the available supplies of the exporting countries so as to distribute them among the other parties to the agreement, as each might need; (b) if there were a *glut* in all the countries, come to mutual agreements for using the surpluses to form stocks; (c) attend *in common* to exporting and importing the staples for which the pool is formed, so as to secure stable prices and a balance between demand and supply on the market, formed by all the participating countries; (d) «arbitrate» a price which may be described as the «European normal», eventually calculated on the basis of the home prices of the exporting and of the importing countries, or else on the weighted average of the prices quoted in all the countries belonging to the Pool.

The «unification of the European market» — the «single» market for a fixed list of products — is only conceivable as the result of a whole laborious process of adjustment of the several national economies. As it would take much time before this object could be achieved, it becomes necessary to set going an «equalising» or «compensating» system between the higher prices quoted for the staples produced within each country, and the lower prices of those staples which, if the country were to liberalise its imports, would seek to flow there. It would require, in other words, a system of «transitory barriers» between the countries signatories of the agreement and a control exercised over imports and exports at the frontiers of the pool area.

4. Some particulars about the plans most discussed - The Dutch Mansholt Plan.

The Mansholt plan points out that the present situation is largely due to protection, which on the one hand leads to surplus production, harmful to the farmers; and on the other to deficits harmful to consumers; keeps prices at a high level; lowers consumption; and hinders specialisation.

Nevertheless — the plan goes on to state — the immediate liberalisation of trade would not offer an efficient remedy. It might indeed injure many farms whose existence is justified by social, political, strategic; but rarely by economic considerations. To reconcile needs often apparently contradictory, the Mansholt plan suggests some measures.

(a) Each country will give its own producers the protection deemed necessary; which should, however, tend progressively to decline and must be approved by a «European High Authority», with power of control.

(b) In the case of inter-European trade the High Authority will fix a «European commercial price» at a rather higher level than the world price, so as to encourage European production; but not too high, so as to avoid the danger that the European importing countries might give way to the temptation to buy from other Continents. Each country may apply on its own territory a national price which may be higher or lower than the European price. In the first case, it will have a right to levy a *tax* on the importer (who purchases at a lower price), in the second case it will grant a *subsidy* to the importer (who purchases at a higher price). The yield of the tax will benefit the national budget; the payment of the subsidy will be charged thereto.

(c) In the case of trade between countries belonging to the pool and countries outside it, when the European commercial price is higher than the outside-pool price, the High Authority will levy from the importer a tax equivalent to the difference between the two prices; the proceeds to be paid into a «European Fund», which will thus find the means required for financing production.

But should the European price be lower than that at which the importer has to purchase the product from other countries, the Mansholt plan makes no provision — as it should have done — for grants to the importers.

(d) Should there be a surplus of products within the area of the pool, provision is made for a stocking policy.

Substantially, under this plan the several countries are no longer judges of the protec-

tion that should be given to their own agriculture. They have to obtain the approval of the High Authority; *i.e.* they have to relinquish in this matter their national sovereignty.

5. The French Pflimlin Plan.

The plan proposed by the French Minister Pflimlin is less specific than that of Mansholt. It recalls the need of raising the agricultural output of Europe and asserts that the attainment of this target could be considerably helped by a unified European market, which will assure measures for improving production and an outlet for the products — two elements which alone will be able to reduce production costs.

The European agricultural Community would be founded on certain principles, namely:

(a) In each agricultural branch the member countries will pool the available supplies of their respective crops; this will assure the solidarity of all in the settlement of the difficulties experienced in finding on the one hand markets, on the other supplies.

(b) Necessary measures will be taken to equate production to consumption, and to maintain market equilibrium in the Member States taken as a whole. It will be necessary to harmonize production policies, to encourage technical progress, to coordinate imports and exports, to proceed with the formation of stocks.

(c) The organisation suggested will aim at creating a common market between the Member Countries for each of the staples coming within its sphere. It will therefore have to «eliminate artificial practices» which hinder competition between countries, and to iron out incompatibilities between productive and market conditions. The system proposed will work through organisations «similar» to those of the Schuman plan with «power to take decisions and to arbitrate».

(d) The French Government considers the method of «progressive and elastic» action necessary; that is to say it favors the provisions of the necessary measures and the avoidance of any automatic mechanism. Practically, it would limit action to a few staples — wheat,

dairy products, sugar, wine — and would proceed by stages, and not by any «violent merger» of the several economies.

6. The Charpentier Plan.

The Charpentier plan, submitted to the Council of Europe in 1951, is based on the following foundations:

(a) Surpluses existing in certain European nations will enjoy priority in the European countries associated in the pool. But «this distribution of surpluses should not have priority over the national and traditional trades of those overseas territories that may be considered the prolongation of certain European countries. On the other hand, it should enjoy a priority over the imports of products from third countries, even if they cost less.

(b) Should there be global European surpluses, the High Authority — besides taking long-term measures which can affect the direction of production, exports, etc. — should attend to forming stocks. It should also «resort to arbitrages», stocking a product when the price falls below a common European price and throwing on the market available stocks when the price trend moves above a given maximum. Provision is made for credits for financing stocks.

(a) As to the price at which products should be traded between the Member Countries, the Charpentier plan states that one of the tasks of the High Authority will be that of fixing a «European» minimum and maximum price for each of the staples exported from one Member Country to another. This European price may be lower or higher than the world price, but it must be detached from the action of supply and demand, and approach the average cost of European producing countries. Consequently, there will be in each country a *national* and a European prime (minimum and maximum).

Thus, while the Mansholt Plan provides for a «European price» only for the trade between European and non-European countries, the Charpentier Plan provides for a «European price» for all trading transactions, inclusive of those between countries members of the pool. Both plans agree in depriving

the Members Countries of the right to determine the measure of protection to be granted to their own respective agricultures, and would confer that right on the High Authority.

7. *The British Eccles Plan.*

The plan submitted by the British delegate to the Council of Europe differs widely from these, a special emphasis being placed on the consumers. « The principal task of a European Authority will not be that of marketing the surpluses so as to sustain prices, but that of increasing consumption so as to organise the inter-European market in a way that will allow of the efficient production of foodstuffs and feeds ».

Eccles does not believe that the organisation of a single market is the best way for attaining these results. He deems that Governments cannot abandon the efforts they have been making over a period of more than 25 years to place their respective agricultural systems on stable foundations.

He therefore thinks it very difficult that the Governments should consent to place in the hands of a High Authority the power to modify the source, the volume and the prices of their imports from countries not members of the pool. After excluding the possibility of appointing a super-national Authority empowered to modify the structure of the production and imports of Member Countries, Eccles recommends that an Inter-State Authority be set up, formed of the representatives of the Governments and the Producers Organisations. This Authority would not have the power to modify the individual character of the national markets, but would use persuasion and would appeal to the goodwill of the countries with a view to developing and rationalising both the production and the consumption of foodstuffs on the territory of the Member States. The decisions of this Authority would take the form of « recommendations » to the Governments.

The Authority would be flanked by an Advisory Committee of Consumers whose right to enquire into the quality and price of foodstuffs would there be recognised.

8. *The Memorandum of the French Delegation to the Preparatory Conference of March 25, 1952.*

In their Memorandum, the French Delegation group the more or less immediate objectives of the common organisation of the agricultural markets, under the following points:

- regulate the trade in foodstuffs between the countries belonging to the Community;
- fix the normal price of exchanges between these countries;
- draw up a common policy on stocks and allocations;
- direct on scientific lines production and consumption within each country.

These are the first objectives that a European agricultural community can aim at. They should be followed up closely by the organisation of a common market, unattainable at once because of the great differences between the conditions in the several countries of agricultural production and market organisation. For this reason the French Memorandum insists on the point that the unification of markets can only be reached by successive stages. With this end in view, the European agricultural community should:

- coordinate progressively the conditions under which agricultural products are produced and processed;
- agree on a common plan of technical assistance and investments for those branches of production and those regions in which conditions are less favourable for meeting, without risk, the needs of a common market. In this connection, the possibility of setting up a European Fund for agricultural investments is examined;
- set in operation a list of prices and exchanges within the agricultural community, that would encourage the farmers to introduce technical improvements and modernise their methods.

If these several targets are to be attained, it would seem necessary that the Community should have at its disposal an Institution possessing the right to take decision and to deal in

arbitrage. The Memorandum stresses the undesirability of setting up purely consultative bodies that would merely be replicas of the many which, on the European or World plane, have been formed to promote international cooperation in agriculture.

9. *Grounds for the new requests.*

One may ask: what are the grounds for these requests for a pool? Do they only represent the interest of producers, or is there really a need to increase the output of agricultural products?

Let us look at the facts. There can be no doubt that Europe must produce more. This imperative need is caused by difficulties — both of technical and monetary character — that stand in the way of obtaining supplies from abroad.

Agricultural production has not kept step with growing needs and increased population of the western Continent. Thus the margin available for export has narrowed. A similar shrinkage has occurred in the Asiatic countries as a result of political troubles. But, even when the political troubles will be over, the growth of the populations on the one hand — which occurs at the rate of some 12 million a year in the Far East — and on the other the present low standard of living, which cannot but be improved, will absorb for long years to come any increase in the production of those countries.

As to the difficulties experienced in the balance of payments, the O.E.E.C. calculated that when the Marshall Plan credits cease in 1952 the food shortage in Western Europe will require — in view of the growth of population at 10% as from 1939 — imports amounting to some 5 billion dollars a year, of which half will have to be paid in dollars only.

In 1950 Europe had to import 30% of her food requirements. Europe as a whole, imports at least 25% of the food supplies she consumes. Foodstuffs and cattle feeds account for 25% of the total cost of European imports. Moreover, in recent times, the balance of payment difficulties have been increased by the need of heavier imports of coal and raw materials.

10. *Other Facts.*

The studies made by the Food and Agriculture Committee of the O.E.E.C. show that the best contribution that can be made to promote agricultural expansion is to be found in a policy for producing larger quantities of feeds for livestock. This would not only make it possible to reduce imports from non-European countries, but would reserve for human use bread cereals now fed to livestock, while imported feeds — as a percentage of total supply — account for 13 to 14% in Belgium, Holland, and the United Kingdom; for 9 to 10% in Switzerland and West Germany; for 2 to 5% in France and Italy.

The O.E.E.C. stressed the grave nature of the situation in the following words: « It is often difficult to find, even in the material sense of the words, the food products of which Europe is in need to meet its agricultural, and consumption requirements, especially in the case of feeds for livestock ».

11. *Production must therefore be increased in spite of apparent marked anomalies.*

The principle of increasing production — on economic lines and, if possible, at lower costs — is therefore a sound one. There is a margin available for this. A more scientific use of the European soil would open up vast possibilities, for there is a very wide difference between the yield of the more advanced and the yield of the backward farms. A wider application of scientific methods would certainly reduce production costs, although in Europe the *per capita* land available for consumers is restricted, as compared to other Continents, and the law of decreasing returns works more actively here than there.

It may undoubtedly seem strange that students and statesmen are asked to consider projects which, at first sight, may seem out of keeping with the rapidly changing situations of our day, so full of contradictions. Contradictions between the policies followed by some countries desirous of large measures of liberalisation, and the policies of others desirous of protecting at all costs certain products. Contradictions between autarchic policies which aim at producing in the home country under defi-

nately anti-economic conditions products which other countries can grow at a lower cost (as, for instance fruits and vegetables grown under glass in Central and Northern Europe) and, on the other hand, mass exports of products in which, at least until a few years ago, only a few countries were specialised (for instance, large scale exports of citrus fruit from overseas countries, such as Algeria and Morocco). Contradictions between the requests presented by one country to another — maybe to Italy — for her to place a long list of products on the free list, while the concessions granted to Italy by countries, who loudly proclaim themselves advocates of liberalisation, refer only to two or three items of negligible importance. Contradictions between the now inveterate habit of bilateral agreements, justified by the anxiety of each country to secure some outlet for its exports, and the ever greater need of wider breathing spaces, which inspires all the efforts to secure multilateral trade.

One might well ask what is the use of pools, of stable prices, of encouraging production, when such a confusion prevails in economic policies. And yet it does not seem possible to refuse *a priori* to make a more thorough study of proposals which might perhaps bring us nearer to larger trade currents between the countries, desirous of finding some means of checking the distressing instability of prices.

But, if the idea of increasing production is a sound one, the means suggested are open to many criticisms.

12. *It would be necessary for the pool to cover many products and be extended to many countries.*

When problems affecting only a few products are considered, it is difficult for the individual countries to find items to offset the possible loss they may suffer from the liberalisation of imports of a given product at the « arbitrated » price. But, if the horizon be enlarged so as to embrace gradually other products which are essential balance of those countries — as do fruits and vegetables in the case of Italy — then it will be easier to find such compensating items. If, on the contrary, the question is viewed piecemeal, product by pro-

duct and if, worse still, the products considered are few, then we shall make little headway. If the proposed pool is to be taken into serious consideration, it would seem essential that each country should be able to count on the organisation of markets for many products — however necessary it may be to go forward gradually, step by step, beginning with the simpler experiments — and that the pool be able to count on the participation of many countries.

13. *Would participation in the pool entail the obligation of exclusive recourse to it for importing and exporting a given product, from and to the rest of the world; or would it be binding only for a given quota which would enjoy priority?*

Another cause of perplexity is the assertion that imports of the staples dealt with by the pool to and from the rest of the world should be unified. This would seem to justify the apprehensions felt in some countries that now buy on certain markets — maybe at higher prices than elsewhere — only because it is on them that they must sell their exports, or must liquidate credits they hold, as, for instance, in the form of emigrant remittances. This would also seem to justify the apprehensions of countries that sell on certain markets where conditions are less favourable, only because they are thus able to buy more advantageously on that same market. A transition period would seem to be necessary between the practice of bilateral agreements and the realisation of the several attempts at multilateral trade. Nevertheless, some devices might make it possible for each country to avoid pledging itself to a common import and export policy; it might be possible, for instance, to earmark for the pool only a certain portion of the exportable surplus. This quota might, within certain limits, be subject to variations from year to year. If each country, during a preliminary period could estimate the import quota which it would obtain through the pool, and the export quota for which it could find a market in each of the other participating countries, the problem of European export surpluses would to a large extent be solved.

14. *The difficulty of arbitrating a European price.*

One of the most serious perplexities arises from the proposal of « arbitrating » a European price. What price should be fixed?

Should the price thus fixed cover the production costs of the less economically advantageous country, then the trade done at that price would be profitable to those who produce at lower costs and sell at the higher European price; but it would not be profitable for the importers in the several countries for whom the « pool price » would become a real « cartel price », excluding the advantages of competition and the possibility of buying at lower prices on the free markets.

It may be that all the countries affiliated to the pool would be willing, as producers, to liberalise imports of a certain product as long as the high price rules, a price that, after all, protects their high-priced product. But it is the consumers who will have the last word; and should they refrain from buying, the pool will not be able to facilitate trade, nor will it be beneficial to agricultural production.

Again, if the « arbitrated » price should only cover the production costs of some countries, then those producing at higher costs will have no reason to enter the pool nor to liberalise the imports of the product at a price fixed at a lower level than that ruling on their own markets. Therefore, price arbitration will not succeed in raising the volume of exchanges. It will not do so in the case first stated, because of the reaction of the consumers which it is easy to foresee; and it will not do so in the latter case, because the countries producing at a higher cost will have no interest to join the pool.

15. A study of the several plans shows that the Dutch one would provide for fixing a « European commercial price », which might differ from the national one. For the exchanges between the pool countries the plan foresees that each Government will levy a duty on the importer when the national price is higher than the European at which the staple will now be bought; or else it will grant a subsidy to the importer when the national price is lower than the European one. Now, it will

be impossible to avoid financial complications, which all Governments will not be in a condition to face. It would be difficult to ascertain in advance the size of the financial charges thus weighing on the budgets of the several States, even if it were possible to identify in advance the products passing through the pool.

Reference is indeed made to a European price level only a little higher than the world price. Nevertheless an unstable factor would always be introduced into each national budget, that of the grants to be made to the importers. Nor would seem justified the assumption that the cost of the subsidies would be offset by the possible yield of the duties levied on other products that the pool deals with in those cases in which the European price is lower than the national one.

Moreover, even supposing that the pool countries undertake to purchase from each other only a quota of the exportable surpluses of fellow members, purchasing the remainder from non-Member Countries, considerable doubts are felt as to the duty which would be fixed by the High Authority, charged to the importer making purchases from non-pool countries. After all, such a duty would mean penalising imports which frequently, as we have said, countries are compelled to make in order to find outlets for their exports on other markets; the duty on imports would, in the last resort, amount to a real tax on exports. Therefore, while it is not inconceivable that the pool countries might agree to undertake the purchase of a quota of their respective export surpluses, it is not conceivable that they should pledge themselves to do so for total imports and exports from and to countries outside the pool and outside Europe.

16. The Charpentier plan would fix the « European price » for trade exchanges not only with non-European countries, but also between European ones. It lays down that the High Authority will suppress national quotas and fix « compensating taxes » against the differences in production costs. It does not provide, as does the Mansholt plan, for duties on or subsidies to imports should the national price be either higher or lower than the European one. But the prospective dangers arising

from a fixed European price differing from the world price are no less serious. The European price would no doubt represent an insurance for the producers; but it might not offer the necessary incentive to the adoption of all possible improvements in farming methods. It spells isolation, crystallisation of the European situation; whereas the rebalancing of the several economies of the European countries can only be secured by encouraging trade with the rest of the world.

The idea of basing the European price on « average costs » would be extremely difficult to realise in the case of products produced under a very great variety of conditions even in a single country. But, even if it were possible to carry it out in practice, this principle leaves out of account, with a resulting high price, the needs of sufficient nutrition, as well as the financial interests of the consumers.

Nor can the example of the coal and steel pool be adduced. The Monnet-Schuman pool provides for an Authority which may make loans to the concerns (art. 54); fix production quotas should the demand be insufficient (art. 58); prevent unfair competition (art. 60); fix, under certain conditions, maximum and minimum prices (art. 61); even set up clearings between the concerns (art. 53/62), taking into account differences in production costs.

But it would be difficult to confer such powers on a High Authority in the case of agriculture. Some powers — such as that for setting up clearings between the several concerns — would be impossible in practice, in view of their very great number and the widely different conditions under which they work.

17. *The task of defining « a priori » the powers assigned to a High Authority is no less difficult.*

Many difficulties stand in the way of accepting the proposal for setting up a High Authority with powers to define — even if only at a later stage of the work — the « systems of production » for each country. Such systems are the result of slow development, of special legislation, of investments already planned and in operation. Such for instance, in Italy, are the works of land reclamation, irrigation, the

Cassa del Mezzogiorno (Fund for the South) and mountain-land improvements. It is inconceivable that a foreign Authority should interfere in the policies of the several countries, presumably without having even a thorough knowledge of their respective situations.

Still more difficult is it to conceive that such an Authority should exercise its powers in the field of agriculture only, or rather in a mere section of that field, when the need of securing a balance between agriculture and industry, the structure of the customs tariffs, etc., clearly show the interdependence of economic factors. It would be better to examine first of all, by common consent, the means for giving practical effect to an Agricultural Community — perhaps under a system of priority quotas — which would encourage a larger volume of trade and would settle to a great extent the problem of the quantities available for export in each country. The setting up a High Authority would be considered later on, when the possibility of operating the Agricultural Community will have been clearly ascertained and when it will be « the function which will create the organ ».

18. *The Pool cannot but persevere in the direction of trade liberalisation and the integration of the economies of the Member Countries. Italy's effort in this direction.*

The O.E.E.C. council decided, in 1950, that by the 30th April 1951 all countries should have liberalised their imports in the measure of 75% of their value in 1948 and should have « consolidated » 60% of the liberalisation measures; *i.e.* should have confirmed them and made them unrepealable. Moreover they should, not later than 31 May 1951, have proceeded to the liberalisation of the products itemised in the so-called « common list ».

The Italian Government, by a series of measures (Ministerial Decree of 21 December 1949, relating to the liberalisation of 50% of the imports at their 1948 value; 15th July 1950, relating to the next stage of the liberalisation of 60%; 15th August 1951, relating to the stage of the 75% liberalisation) had freed Italian trade from all quantitative limitations, liberalising respectively, 56%, 73%, and lastly

74.3% of her imports. These percentages — it should be noted — refer to the value in 1948 of the imports of agricultural products and foodstuffs from the participating countries. Italy had thus met in full the requirements laid down by the O.E.E.C., making the maximum contribution to the realisation of a single European market for staple foodstuffs.

On August, 15, 1951, the « first common liberalisation list », drawn up previously by decision of April 7, 1951, confirmed on July 31, came into force. It had been unanimously approved, as Turkey had withdrawn her reservations.

In the case of foodstuffs, to be included in a « second common list for liberalisation », Italy had proposed — on condition that they should also be liberalised by the other countries — to include salted, cured, smoked or otherwise prepared meats, hams, sausages, and similar products; potatoes; fresh vegetables; fresh fruit, wines and vermouth (including sparkling wines, cognac and liqueurs); fruit pulp, peel and juice (unsugared); sulphated fruit; liquorice juice.

In the memorandum accompanying this proposal for enlarging the liberalisation measures, the Italian Government stressed the effort it had made, both in the liberalisation of trade as a whole (in which notable levels had been attained in each of the three groups of products considered: 74.30% for agricultural products, 82.6% for raw materials, 69.2% for finished products, in all 77%) and in the liberalisation of the items included in the « first common list ». The Memorandum went on to say that the Italian Government had not had recourse to the clause providing for exceptions for any of the items contained in the common list, although other countries had availed themselves of those clauses for a certain number of items, of which some were of special interest for Italian exports. Nor were the reasons adduced by those countries always convincing. Therefore the Italian Government in the aforesaid memorandum urged the Coordinating Group to do all in its power to request the countries to liberalise, as soon as possible, the products for which they had asked that the exceptions be applied.

Should however the results of the enquiry made by the Coordinating Group be such as to reduce in a marked degree the advantages Italy had a right to expect from the liberalisation steps — as an offset to the losses which she should certainly have to accept as a result of the liberalisation of certain products (such as yarns, fabrics, wall-nuts, raisins) — then the Italian Government would be compelled to review its own position on the lines stated in another memorandum.

19. *The effort for agricultural development in the O.E.E.C. countries.*

The O.E.E.C. expert groups have been studying the possibility of raising by 25%, in the course of the next five years, the output of five branches of activity, *i.e.* agriculture, coal, steel, electricity, labor.

The group of experts for agriculture of the O.E.E.C. addressed to the Governments of the participating countries some recommendations on the subject of the desired development of agricultural production. They specified in detail some of the premises and conditions, compliance with which would be essential to enable the several countries to develop their agricultural output; and among these, first of all, guaranteed markets, on which to place their products, and more active trade.

If the benefits already acquired are not to be lost, it would be essential for the proposed European Agricultural Community to persevere in, and intensify on realistic lines, the action so far taken by the O.E.E.C. The problems do not change; they remain what they were. All that changes are the efforts to create bodies with sufficient political backing behind them to solve the problems, maybe by making some small sacrifice of the sovereign rights of the Member Countries.

20. *The Pool must likewise promote the technical progress of the Member Countries.*

Another essential task for the proposed European Agricultural Community is that the Member Countries should apply, on an ever larger scale, all the devices needed for improving yields and reducing costs. In this connec-

tion, in the case of Italy, the labor problem has to be considered. In Italy production costs are raised by the excessive pressure of labor on land resources. This makes it necessary that the countries where there is, instead, a shortage of labor should relieve this pressure, which is so heavy an item in the cost of production.

The action taken by the O.E.E.C. in favor of a « travelling group » that should make an accurate study in France, Germany and Italy of the possibilities, on the one hand, of supplying labor and, on the other, of finding work for it, with special reference to the plans for agricultural development, might help the solution of this problem.

21. *A financial body which would be an offshoot of the E.P.U. at the service of the European Agricultural Community. An investment fund.*

Under conditions which persistently hinder trade exchanges and of inconvertible currencies, a financial mechanism is needed on the lines of the E.P.U., or an offshoot thereof. The E.P.U. has undoubtedly been helpful in facilitating trade exchanges, which could never have been carried out in its absence. It provides a system of multilateral settlements within which the current transactions of each Member Country with the others can take place under conditions which reduce to a minimum bilateral transfers, payments in goods or in dollars. It would be superfluous to enter into details. The Union was set up in 1950 to meet a situation that differed widely from that which arose after the Korean war. The funds of the Union were supplied by American Aid which, acting through the E.C.A., gave support to the position of the Member Countries at the outset.

Now, if the European Agricultural Community is to succeed in its first purpose, which is that of affording greater opportunities for trade between the Member Countries, the need arises of a financial institution with funds sufficient to cover some of the disequilibria which may be expected to arise in participating countries, and possessing even greater elasticity than the

E.P.U. — a need shown by a highly instructive experience.

Meantime, so that the countries belonging to the Agricultural Community may tend towards higher production and higher standards of living, it would be desirable that an International Investment Fund be also set up, on which those countries that are most susceptible of development and technical improvement could draw. They would thus be able to secure more easily the employment of the factors of production — machines, fertilisers, labor — accompanied by a marked reduction in costs.

22. *Compensating measures during the transition period. Danger that they might become permanent.*

The French plan states that the unification of the European market — the so-called single market for certain staples — is conceivable only as the result of a whole series of laborious adjustments between the several economies, to be made by means of:

- (a) the elimination of subsidies, dumping, and other discriminatory measures as between the countries desirous of a single market;
- (b) the equalisation of carriage rates;
- (c) the equalisation of fiscal legislation and of social charges;
- (d) the equalisation of customs duties in dealings with outside countries, perhaps on the basis of an average of those now in force;
- (e) the organisation of markets on the basis of prices that are remunerative for the farmers.

But, as much time will be needed before this laborious work can be completed, it will be necessary to set in movement a mechanism for equalising, or offsetting, the differences between the higher prices of commodities produced within certain countries and the lower ones of those which would prevail, if each country were to allow imports from other countries to enter freely.

And here is the danger. The mechanism may become permanent as a result of the pressure exercised within each country by organisations of farmers and workers. Nor is

this danger always avoided by the pledge, given by each country to the others, that the mechanism will be repealed within a given period.

23. *This danger is enhanced when monetary phenomena are taken into consideration.*

We may consider two hypotheses, of which the more realistic one supposes currency inflation in one of the countries belonging to the pool, and the less realistic supposes currency deflation in one of them.

I. — The country suffering from inflation sees:

(a) its export trade continue, until the price rise of goods and services has affected its exports. When this point is reached, exports remain stationary and then decline, unless the economic structure of the country has adequate elasticity. Nevertheless — in the absence of a single rate quoted for the inflated currency of a given market — the legal one — and of hindrances placed in the way of exports — there may arise, in the country suffering from inflation, an incentive to sell goods against foreign currency, which can now be exchanged for larger amounts of the national currency. Then the other countries may protect themselves against the attempted invasion of goods and services from the inflation country by demanding compensatory measures, which will take into account the degree of inflation of the latter;

(a) an increase of the incentive to import. But the growing demand for foreign currency cannot be met. Thus, in conformity with a well-known principle, the imports of a country suffering from inflation, gradually shrink.

It may be that, as in the recent cases of England and of France, the country suffering from inflation is aware of the disequilibrium of its balance of payments and drastically curtails imports in an effort to rebalance it. What then will the other countries do? They may reply by making larger investments for productive purposes on the home market, and by diverting their trade to other countries. But, would the other countries be entitled, for in-

stance, to ask for « compensatory measures », which would further check the exports from the inflation country, so as to compel it to retrace its steps? It is doubtful whether such a demand could be accepted by — let us suppose — a High Authority of the Community, when it could be easily shown that this would lead to a further deterioration of the balance of payments of the inflation country. On the other hand, will the other countries have to put up passively with the losses caused by the harmful monetary policy followed by one or the other?

And here another argument pops up against the arbitration of the European price. In what currency would this price have to be expressed? And, if there should be currency inflation in one or more of the countries participating in the pool, what will the purchasing power of this currency be in terms of the inflated ones, for which however no official valuation had yet been made?

II. — A country carrying out deflation sees:

- (a) her exports grow as the prices of her goods and services tend to decline;
- (b) her imports decline, at least in the case of those goods that can be produced at home more advantageously now that prices are falling.

The hypothesis of deflation is certainly the less probable. However, in this case also, the countries that are in danger of being invaded by the goods of the country which is deflating can apply for compensatory measures: unless they find that the exports of the deflation country can be purchased with products of their own, which it would have been difficult to market but for this favourable opportunity.

III. — The long and the short of it is that any country that ceases to follow a stable money policy gives rise to conditions that react on the other countries: reactions which may be neutralised by recourse to « compensatory measures ». But it is characteristic of such measures, when they are caused by monetary phenomena, that they tend to become permanent instead of transitory, at least so long as the monetary policy of the inflationist or deflationist country does not allign itself once

more with those of the greater number of the countries belonging to the pool.

Therefore — while admitting that the adjustment of the monetary, tariff, and financial policies of the countries participating in the pool is found to be objectively feasible *in the long run* — any pledge the pool may give can only be observed, if each country follows a policy which assures the stable purchasing power of its currency. Is this an undertaking that the participating countries are willing to make?

24 - *Mandate of the Group of Experts. Collection of documents and list of the Staples the European Agricultural Community will take into consideration.*

The preparatory conference which met in Paris from 25th to 28th March, 1952, set up an *ad hoc* group of experts to make the necessary preparations for the Conference itself, with the following terms of reference:

(a) study all the products the experts may suggest to the Group, on the strength of suggestions sent them from the several countries;

(b) submit suggestions about a list of products to be submitted to the *ad hoc* Conference and state the principles by which the Group has been guided in making the selection;

(c) bring together all the documentation, either in the possession of international organisations or supplied by the Governments, so as to show the status of the general conditions and of the economic, technical and social problems affecting the production, consumption, the organisation of the markets and foreign trade of each country;

(d) collect studies on the institutional problems to which a European organisation of agricultural markets might give rise.

I. — The first task to be undertaken by each country was that of drawing up the list of products it would wish the pool to consider.

If it be true that the new Agricultural Community will follow a definite policy of liberalisation and integration of the economies of the several countries, the collection of the suggestions of products submitted by the several

countries will be a « first pool » of countries' wishes; and the list, which will later on be brought before the Conference, will be the expression of the wishes that should — at least in the first stage of the work — be taken into consideration in making the experiment.

In the case of each product of which there is a surplus in the country of origin — Italy for instance — it will be necessary to ascertain what obstacles stand in the way of exports towards each of the markets participating in the pool — France, Denmark, etc., for instance — and to see whether the motives that have led to these obstacles can be removed, or mitigated, by better and serious efforts at international cooperation. If — as has been already said and it seems advisable to repeat — each country makes this enquiry for each of the products she would wish to export, each of the pool countries will be asked for imports by the other markets. Thus each of the pool countries would be able to compare the advantages to be obtained by finding outlets for its own exports, with the disadvantages arising from import quotas of other products either by the country, where it markets its own surpluses, or by any other of the Community.

A general remark that may be made on this subject is that — as, in the case of Italy, her surpluses consist of products, the demand for which in other countries is elastic and uncertain, while her imports (wheat, fats, etc.) come from non-European countries — the organisation of European markets might facilitate the disposal of her exports, provided she is under no obligation to import the *total* quantity of her imports from European countries; an obligation which, after all, would seem to be illogical. And the quota system of imports with priority from the markets of the « pool » can avoid this kind of obligation.

II. — When this preliminary enquiry, which would appear to be quite essential, and the collection of pertinent documentation have once been made, it will be possible to ascertain for the whole body of countries belonging to the pool:

(a) of what products there is a surplus in some countries and not in others;

(b) of what products there is a surplus in all countries;

(c) of what products there is a deficit in all countries.

(a) In the case of the first group, the importing countries should pledge themselves to take a quota of the surplus from the several exporting countries. This quota — we have said — would vary, from year to year, above an agreed minimum. And this device would be the means for assuring an outlet, if not for the whole surplus, of the « pool » for most of it, in the first year in which the pool would operate. In the course of time production also could be readjusted to the largest probable demand, in an effort at European cooperation, and revised especially in some countries which produce under forced conditions, or conditions of little economic expediency.

The essential function of the pool would thus be that of ascertaining the presence of surpluses, and of distributing them to the fullest extent possible between the markets of the Member Countries.

If the principle of the « quota » purchase on European markets, coupled with that of priority, be accepted, each country would be free to import any additional quantity of the product it might require from markets outside the pool. This might be necessary for many reasons, as we mentioned: economic (the disposal of its own export surpluses), social (the utilisation of emigrant remittances); and so forth. At the same time should the quota principle prove insufficient, the common organ of the Community should study other means for protecting the producing countries, members of the pool, from the competition of the non-pool countries.

(b) The pool would leave the countries free to place with non-member countries any residual surpluses of products belonging to the second group: the group of products of which there is a surplus in all countries. Or, should the producing countries agree, the pool might itself attend to placing such residues.

(c) In the case of the third group of products — those for which there is a deficit in all countries — the pool might leave the mem-

ber countries free to procure, each on its own account, the supplies needed; or it might get the countries to agree on the partial or total purchase of the imports required from certain given markets, should this method allow of forming a more solid front, so as to obtain better conditions of sale.

25. *Possible functions of a European Agricultural Community.*

To sum up, should a European Agricultural Community be formed, it might set itself some targets, such as that of:

(a) a definite action in favor of the liberalisation and integration of trade between the Member Countries;

(b) a clear and accurate knowledge of the demand for the products dealt with by the pool in the countries taking part in it, of their production, the organisation of their domestic markets, the regulation of their foreign trade. This would be needed as a starting point, as it would show what are the many obstacles in each of the Member Countries which in practice hinder their trade;

(c) the inclusion of the largest possible number of products to be taken up, if necessary successively, in the course of time, so as to give each country the opportunity to offset possible losses that might arise in one branch by the advantages it would secure in others;

(d) promoting technical progress by spreading the application of improved methods of farming among the small farms, so as to lower costs, above all in the countries where they are highest, and by persevering tenaciously in the more scientific use of all the factors of *labour forces*;

(e) paying serious attention, in this connection, to the problem of surplus labour forces in some countries, while in others they are insufficient to meet needs;

(f) providing measures for ascertaining the exportable surpluses in each country and defining the engagements entered into by the Member countries to accept priority quotas of these available European exports;

(g) taking measures for regulating the distribution of any products of which there

may be a deficit in the European Agricultural Community area;

(h) organising a forum for discussions between the Governments and a centre for the collection of information on supplies available for export and on the insufficient supply of any of the products dealt with in the several countries;

(i) making use of available documentation and of the assistance of existing international organisations.

The attainment of these targets could be facilitated by the work of a financing body, which could assist trade between countries with still unconvertible currencies and promote investments in some of the Member Countries

offering special opportunities for development: the object being to raise the living standards of the populations, and gradually lead some countries to modify their trends of productive activity, directing them along better suited lines. This action, however, should be undertaken only when the experience acquired of the advantageous effects of the commercial and technical policies followed by the European Agricultural Community will have convinced all the participating countries of the advisability of revising some of the crop policies so far followed.

To expect more would, for the present, be premature. A great step forward will already have been taken, if only some of the tasks, above set forth, are taken in hand.