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## The common agriculture policy : a french point of view

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**THE COMMON AGRICULTURAL POLICY :  
A FRENCH POINT OF VIEW**

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THE COMMON AGRICULTURAL POLICY :  
A FRENCH POINT OF VIEW

### Introduction

According to Greek mythology Europe was a phenician princess kidnapped on the shores of Asia and settled in the western peninsula of the continent. This nice story carries two symbols relevant to the history of the European Community. First there is the princess who embodies the attractive beauty or even the fascination felt by the founding fathers with regard to the idea of building an area of peace and freedom on the continent. But recall, the princess is phenician, and as is well known, phenicians were merchants, good merchants indeed. Here is the second symbol, may be the merchants have taken over Europe, so that the early enthousiam is threaten by the everyday concerns about who is going to gain or lose from any action to be taken in the common policies.

The present circonstances make it particularly interesting to review the CAP, since it comes under tremendous pressures for change, from many sides at once. At first glance this state of affairs does not sound so special, because reforming the CAP has been an issue almost continuously since its inception, except when world markets became nervous and heated a couple of times, feeding the community with some fresh air. There is no wonder why EC farm policies should evolve in accordance with a changing economic environment ; farm programs and economic policies change over time in any country, trying to cope with new, unforeseen if not unforeseeable, circumstances. Why is the strong word reform so steadily used for CAP adjustments ?

In the community circles it is customary to talk about the CAP as the cornerstone of the European community, but some analysts have wondered whether it is not a stumbling block ? What are then the major issues and problems which force the CAP to move, and what is special about the economic weaknesses of the CAP compared to other farm policies ? Section I will deal with these questions. In section II some light on the present difficulties will be searched in the developments of the CAP and even further back in the history of european agriculture. This section will also deal with the recent attempts made at the reform and their achievements in terms of long run objectives. Finally recalling the main driving forces at work I try to guess how is the trend of changes likely to be. The main theme here is renationalization.

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I want to thank P. Rainelli for his comments and suggestions.

In this paper I am supposed to reflect a French point of view. Such an "average" French point of view is not easy to define. In several cases the strategies followed by France have I believe, turned against its own long run interest. Nevertheless, there are reasons behind decisions or positions taken by France at some major stages of the EEC life, which may be found in the late modernization of French agriculture and its pervasive heterogeneity.

### I. The CAP at the Cross Roads ?

Although the adjustment of the CAP has been a continuing process over time, there is little doubt that current circumstances are special in the sense they make significant changes inevitable. The first pressure is the budget, a synthetic indicator of the adverse effects of ill adapted previous policies to a changing environment. Of course structural adjustment to economic growth is at the heart of the farm problem which the CAP, like other farm policies, has to struggle with. In any developed country agricultural policies attract a lot of attention and debate even if the farm sector is now a very small part of the economy. The supranational character of the CAP makes decisions even more difficult to reach, because interests of social groups find a national vehicle at the EEC level where they become national positions. No wonder that CAP, less than any other policy, can hardly anticipate or even solve with economic rationale many of the problems imbedded in its features when economic forces at work turn the signals on the red.

#### 1. The pressure of the budget

Table 1. FEOGA expenditures (guarantee) and price decisions (1978-1985)

	FEOGA Gross Expenditures		price decisions (% change)		
	amount (millions ecus)	annual rate (%)	ecu real terms <sup>a</sup>		
1978	8 673	26.9	1978-79	2.1	+ 1.0
1979	10 440	20.4	79-80	1.3	- 2.8
1980	11 315	8.4	80-81	4.8	- 1.4
1981	10 980	-1.4	81-82	9.2	+ 0.9
1982	12 406	11.3	82-83	10.4	+ 3.2
1983	15 811	28.3	83-84	4.2	+ 0.6
1984	18 346	15.6	84-85	-0.5	- 2.8
1985	19 979		85-86	0.1	- 3.2 <sup>b</sup>

a - in national currencies deflated by average EC inflation.  
b - inflation rate estimate of 5.0.

Source : COMMISSION Annual report (1983, p. 260 and 1985 p. 163)  
Green Europe (Rapid notes : n° 15 p. 6 and 27 p. 14).

Spending on market regimes has been increasing steadily over time. Between 1974 - 1979 the average annual growth rate was 27 %, it fell sharply to 4 % in 1980 and 1981, but rose faster again in 1982 and 1983 (11 % and 28 %). Actually the relief on the budget in 1980/81 was due to world market prices boom, to which the council of ministers reacted quickly by relaxing the downward pressure on prices. After an average decrease in real terms of 2 % from 1977/78 to 1980/81 they were raised by 0.9, 3.2, 0.6 % in the three following crop years (1). After the soaring expenditures of 1982 and 1983 where the ceiling on the budget was hit, price fixation return to the "prudent" doctrine with -2,8 and -3,2 in the crop-year 1984/1985 and 1985/86.

These developments illustrate two main points (i) that price increases do not wait long before bearing on the expenditures, (ii) that council of ministers tend to react mainly to the budget pressure when it comes to deciding on prices.

Table 2. EEC financial resources and degree of self sufficiency (EUR-9)

	FINANCIAL RESOURCES			SELF SUFFICIENCY			
	VAT	tariff (millions écus)	agricult. levies		cereals	sugar	milk powder
1971	0.924	0.582	0.713	1973/4	92	91	137
1981	10.309	6.274	2.473	1981/2	109	144	142
		(percentage)			butter	meat	
1971	.40	.25	.31	1973/4	101	95	
1981	.53	.32	.13	1981/2	123	102	

Source : 30 jours d'Europe supplément déc. 1982 and Agricultural Report 1984.

Many forces have contributed over the past ten years to worsen the budget situation. First EEC agriculture has been so successful on the technological side that it has become a structural net exporter of staple commodities (grain, milk, beef, poultry, sugar ...). While protection used to bring funds through the levies when the EEC was essentially an importer, now there is a cost to the budget to be added to the consumer cost which existed before. Naturally it is not random if (with the exception of poultry) the commodities which EEC has in surplus, are also those highly protected with respect to world prices, and therefore the most costly too in export restitutions or intervention buying. Table 2 shows that the share of tariffs receipts in the financial resources has

been reduced to "la peau de chagrin". Lack of demand due to the economic slow down has reduced the export demand and depressed world market prices. After the oil crisis the strong dollar has made this problem worse through the debt situation of many developing countries who are still major importers of staple temperate zone commodities.

The overvalued dollar had however a counteracting effect by weakening the competitiveness of US agricultural exports and the consequent low world and domestic US prices in dollars. Converted into ecus world prices have turned high enough to bring restitutions to a very low level on grains.

The trade policy has also steadily contributed to the deterioration of the budget situation through the proliferation of exception rules to the Common tariff i.e the principle of "Community preference". The high protection on major temperate agricultural products installed in the early 60's has put the CAP rules under pressure from the outside and from the inside of an evolving EC, particularly with the first enlargement. Discontent with the high protection, countries have obtained special rights of entry at lower tariff rates or sometimes without protection (ACP sugar quota, beef quotas, new Zealand butter and sheep exports to Britain, consolidated zero tariff on soja and cornfeed, low tariff on cassava etc). All these exceptions to the common rules have aggravated the financial situation by choking the resources and by substituting for domestic products on the internal market and therefore requiring an equivalent amount of funding for exports.

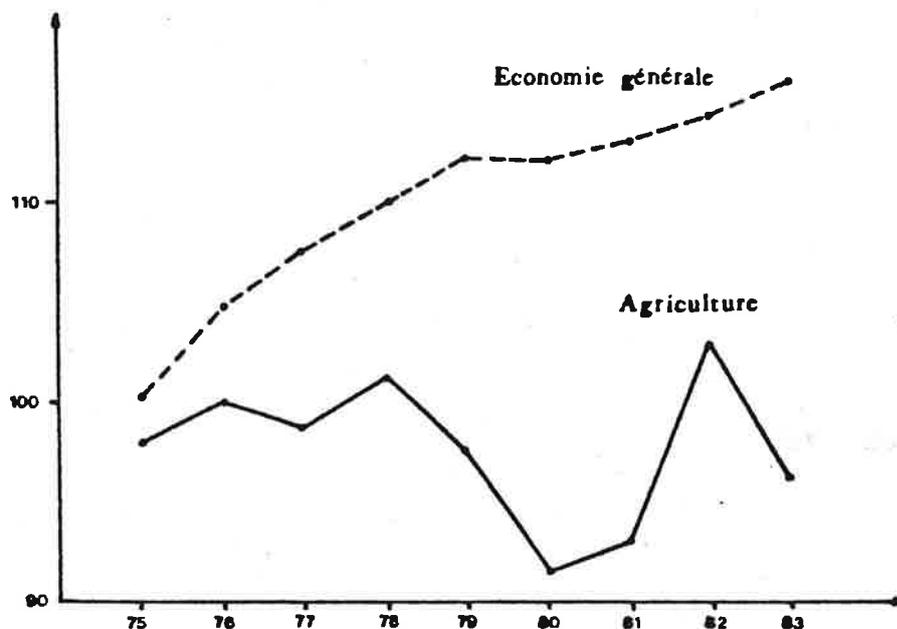
The economic slack also contributed to the budget shortage by the poor tax yield, and the competition for public funds needed to alleviate adjustment costs or pay unemployment compensation in the overall economy. Agriculture has an increasingly difficult time extracting an increasing share of public resources. On the budget side we can draw two lessons and a question (i) there is now a structural export situation which will maintain the pressure ; (ii) council of Ministers seem to be sensitive mainly to the budget constraints, the more so as some countries use this device as a way to promote changes in the direction they want the CAP to move (e.g.UK). Now, is it likely that this pressure will be able to initiate reforms with lasting effects in terms of adjusting to underlying economic forces ? In "Document 500", the commission makes it clear

that "the adaptation of the CAP should not be made according to exclusive budgetary criteria, but rather with the aim of fulfilling the fundamental objectives in the most cost-effective way". The intention is farsighted but the decision making process of the EEC does not seem to be so fond of economic rationale.

## 2. The farm problem

A sluggish economy does not have on farm policy the only adverse effect of making funds more scarce, its main impact is probably elsewhere. It lies in the too small attraction of resources out of the farm sector and in the adverse evolution of the internal terms of trade between agriculture and the industrial inputs which it uses more and more. The history of economic growth involves the classical outmigration of farm labor towards urban jobs. Clearly, in the recent decade the job market in western Europe has been so bad as to slow down significantly the decrease of farm population. In the sixties the average annual rate in France was 4,2 %, in the late seventies it was less than 3 %. On the other hand the sensitivity of farm incomes to the industrial level of activity and prices has now increased drastically. Intermediate inputs used to account for barely 20 % of the gross income farm in the lates 50's in France it is now about half. Rapid inflation has occurred after 1975 in several member states (France, Italy ...) and has badly hurt agricultural incomes (fig.1) The average farm situation has deteriorated considerably in relative terms and is characterized by a long period of absolute stagnation. CAP itself has contributed to aggravate the situation in some cases through the MCA system. France for example has consistently held back its own price increases which would have normally followed the many devaluations since 1969.

Figure 1. Incomes in agriculture and in the over all economy (per head) (Green Europe n°24).



In such macroeconomic circumstances, which have hurt agriculture in most western countries earlier or later, through external monetary effects (US) or through internal terms of trade, it is not easy for the policy makers to state freely that measures should be taken to solve the long run problems disregarding the damaging short run effects on the farm sector. It would be erroneous to stick to a view of the ministers of agriculture forgetting about economic forces and leaning weakly under the weight of the farm lobby. Of course there is some of that but the solution of the farm problem is not that easy.

Here one may want to sort out two kinds of reasons for the difficulties. First is the economic and social situation of farmers, second is the public opinion and the political game. In most western countries income per labor unit is usually lower than what comparable jobs provide. Besides there is a tremendous inequality between persons, regions, nations. So the image of the farmers living in sparsely populated area, without alternative job opportunities, sometimes on small farm size is a widespread reality. The drama is that farm policy tools are not able to solve the problems of poor regions, while too much is expected from them since other (regional) policies are usually under-developed.

Under these circumstances lowering prices is going to hurt badly the small poor farmer who cannot really move to another job. But because agriculture is so heterogeneous in most countries, large farmers and better skilled farmers, may make a lot of money and buy more equipment to increase yields in the most productive areas. Price discrimination is not easy to enforce and has been barred in EEC when France made some proposals in that direction. Then one is left with so called structural aids, direct income payments or various less favored regions premiums (beef cattle, sheep...), but direct aids are well known to be more costly than are price policies since the burden is shifted away from the consumer to the budget. Under the present circumstances this does not appear as an attractive avenue to solve farm problems. In any case farmers don't like direct payments and one would have to find other justifications like landscape keeping to appropriate more money for the poor agricultural regions. Moreover, there is more talk about the so called structural policy measures than funds in the orientation section of the European budget (less than 5 % in 1985). So it may not come as a surprise that due to heterogeneous sector and uniform pricing, CAP is viewed by many as increasing the income disparities between farms and regions, without solving the poor farmer problem. In many cases the same could be said about most farm programs which strive to support incomes in developed countries.

The objective mediocre position of many farmers is not enough to explain why a sector with a small and decreasing share of employment and production can attract such a large share of public funds. First the period of food shortage, particularly the last war have left deeply rooted bad memories in many European countries. This is particularly true for Germany. The need for food security is therefore viewed as an important reason to provide farmers with protection from world market which are known to be instable and more or less unreliable. Even in Britain traditionally free trade minded, support was provided to agriculture before joining the Common market, of course to a lesser extent than on the continent. In France, there is a strong tradition for protectionism ever since the middle of the 18th century. The tradition of agricultural protection shared by Germany and France will inevitably dominate the construction of the CAP and soon be at the heart of the difficulties of the customs union.

### 3. The European problem

The CAP is not just another farm policy in a particular developed country or region. Its supranational nature implies some specific features which are at the core of the present problems. There seems to be a fragile balance between integrating and nationalistic driving forces. Three aspects are worth emphasizing here : (i) the implication of financial responsibility (ii) the institutional framework of the decision making process. (iii) the monetary issue and its consequences.

#### - The principle of financial responsibility

The customs union and community preference principles could not have survived long (if they actually did so) if the financial resources and spending had been kept at the national levels. The reason is that, under national financing, an importing country would have been better off buying on the world market and keeping the tariff proceeds within the national budget, than buy the same commodities in the partner country at a higher price.

Through the custom union and the financial responsibility, intra community trade has developed and significant balance of payments transfers have taken place. The financial transfers appearing in the accounts were more or less recognized from the beginning but the issue has been studied more in depth over the last ten years particularly in countries who are significant losers (Koester, Rollo, Buckwell and al. ...).

The very specific nature of CAP has produced a divergence between national interests and community interests. Because farm prices in EC are significantly above world prices, the shadow price of agricultural products is the world price for the community as a whole, but nearly the common EEC price for a particular country. This is an advantage for a net exporter, it is a burden for a net importer. Therefore the CAP provides a device for an exporting country to externalize part of the budget and social costs of its farm programs on the partner countries. The incentive to refrain from too generous price increases is therefore weakened at the community level. As an example it is unlikely that France, a large grain exporter could have supported grain prices as the EC did, since the budget cost would have quickly appeared unbearable . Due to the relatively large discrepancy between world and EEC prices for major commodities large exporters can gain a lot (France) but the largest gainers in relative

terms are the small countries with a large exporting sector (e.g. IRL, NL, DK). As an illustration the economic advantage that Ireland has been able to extract from the CAP has been so large (8 % of the GNP in 1984 - Buckwell et al.,) most of the time, that not surprisingly little complaint about the "often mentioned CAP inefficiencies and absurdities" comes from that side.

Table 3. Marginal balance of payments transfers between states resulting from increase of 1 % of all guaranteed prices (millions ecus, base year 1980)

D	FR	IT	NL	BL	UK	IRL	DK
-26	+78	-52	+8	-3	-49	+21	+24

Source : MOREDDU (1984, p. 37), Product included : grains, oilseeds, manioc, milk, beef, pork and poultry, sugar, overall. FEOGA spending increases by 129 million écu.

Quite different is the wind coming from a similar but a bit northern direction. Britain was about half self sufficient when she joined the common market and one may understand that with such a huge cost in terms of the budget and the balance of payments, she could not quite heartedly accept the rules of the game, even if she had to say so in order to get in. As is well known after a long lasting struggle, Britain's compensation problem was eventually solved in the Fontainebleau summit last year. The British have been good at keeping a pressure on their partners by blocking as far as was seen politically acceptable the working of the CAP, while "taking the picking" when they could (1).

This is just one example of the natural tendency for countries who considered they did not receive a fair return from the budget to take advantage of a particular deal to reap some benefits through various derogations to the common principles. "The CAP has been cluttered with numerous derogations and with a variety of special aids which now accounts for a large part of the cost of the CAP" (TRACY, 1984). From the reduced levy on maize long granted to Italy or the New Zealand butter quota, to the most recent VAT rebate provided to the German farmers and the generous milk quota given to Ireland, the CAP has taken an overdose of complex and costly regulations and special regimes for some countries. The reinforcement of support for Mediterranean products and the recent PIM (Integrated Mediterranean Programs) have significantly restored the balance of the CAP towards the "South" of Europe which had previously more to lose than gain from the better regimes provided to northern commodities. Italy is no longer a net financial contributor to the budget and France has become

(1) "witness the "Peart" slaughter premium for beef, which unleashed a series of other special premise in the beef sector" (Tracy, 1984, p.6).

one. This is how the budget has been inflating through a series of compromises and packages, that the council of ministers had to agree upon if decisions to be reached.

- EC decision making process

Since the basic price support mechanism results in transfers which are not easily accepted, compensations are requested on other products or policies and the CAP has a tendency to spread and to become more complex and sometimes inconsistent.

Besides this, the working of the council of ministers seems to have an upward bias in price fixing, so that prices would be on average higher than what any country could afford within a national policy context. Price increases which come out of the marathons are usually higher than the commission proposals(1). This outcome does not come up as such a surprise given the externalization possibility of costs mentioned above. But there is more into that. Since arbitrage takes place at a supra national level, agriculture ministers tend to consider their national farmers as their constituency, so that group interests become national interests and the eventual compromise is made on the back of the EC consumer or tax payer who is still a rather theoretical concept in the European political life. Farm ministers can therefore externalize as well the political cost of the price decisions which they would have to bear to some extent in a national policy context. This view is consistent with the little influence that the COPA (Agricultural union representatives) has in Brussels, where the divergence of interests between producers of different countries is an incentive to carry the political pressure through national channels i.e. the Ministers (Brumter, 1985). In that light the price increase requests by the COPA sound like an indication rather than a commitment from the part of national farmers' organisations (table 4).

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1. M. TRACY (1984) shows that the cumulative average nominal increases in common prices in ecus since 1973/74 is 202 % compared to the commission proposals which add up to 178 % (see also table 4).

Table 4. Annual agricultural price increases in ecu.

crop year	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83
commission proposals	7.2 %	9 %	7.5 %	3 %	2 %	0 %	2.4 %	8,9 %	9 %
COPA'S position	12.4 %	15 %	10.6 %	7.4 %	5 %	4 %	7.9 %	15.3 %	16.3 %
council's decision	9 %	9.6 %	7.7 %	3.9 %	2.1 %	1.3 %	4.8 %	9.4 %	10.4 %

Source : Brumter 1985.

It has been suggested (e.g. Sienna memorandum) that the pressure should be removed from the ministers of agriculture and that important decisions on price guidelines or reform should be dealt with in a wider representation of the interests of the whole society. This idea is somewhat appealing if the analyses proposed before have some relevance ; similarly it could make sense to free ministers from the year to year decision process which forces them away from principles and back to short run interests. One could assume that a wider representation of the countries dealing with a pluriannual "agricultural act" could enlarge the space for compromising to other fields than just the farm problems.

Doubts are expressed about the improvement that such proposals could bring about. They were in fact tried in the European Summit in Athens in december 1983. Although the agricultural dossier was handed over to a special committee at the level of Foreign ministers (COREPER) the outcome was not a success ; on milk quota, decisions were not made in Athens but by the agriculture ministers in the price session of spring 1984, and the British contribution problem had to wait until June to get solved in the European Council of Fontainebleau. As for pluriannual commitments, the prospect is not so good since ministers do take advantage of any opportunity to pull back from earlier agreements : the grain guarantee thresholds decided in 1982/83 did not prevent the German delegation to block a cut back in grain prices at the last price fixing session in 1985. May be no such opportunity to fix price every year should be provided and the actual conduct of the markets could be handed over to the commission, under guidelines provided every three or four years by the Council ? But according to M. Tracy a well positioned observer. "It is not uncommon to hear those who are familiar with existing practices admit that the council cannot be reformed".

- The green money system trends to favor price increases.

Another supranational factor working for higher prices and spending, arises from the interaction between the European monetary System (EMS) and the CAP. Parity between currencies have changed quite often over the last 15 years due to different rates of inflation between countries. As prices were set in a common unit of account (now the ECU) national prices should have been adjusted immediately i. e. upwards (downwards) in weak (strong) currency countries. As it is well known countries have resisted and delayed such changes by resorting to so called "green rates" which were closer to the ones prevailing before readjustment. Monetary Compensatory Amounts (MCA's) were created to maintain lower prices in devaluing countries

(negative MCA's) and higher prices in revaluing countries. Since it was easier politically for countries to reduce negative MCA's which meant higher prices than for strong currency countries to lower their prices (through smaller positive MCA's), it has been argued that the flexibility provided by the green rates has led to a bias for price increases in the community. (Tangermann, 1985).

This bias is quite well documented by the decisions made last year at the price fixing session (march 1984). Although prices in ECU were lowered on average by 0.5 percent, when converted into national currencies they were up by 3.3 % . The trick was that, in order to avoid hurting German farmers by lower prices in DM which would result from revaluating the DM against the ECU, positive MCA's of Germany were converted into negative MCA's for all other member countries. This is equivalent to creating a new greenmoney revalued by 3.4 % relative to the old one. Since all the negative MCA's were immediately canceled, prices moved up by the same amount. For the future (the rule is set for three years) this will force the EEC to rise farm prices according to the degree of the strongest currency revaluation. Here is a built-in mechanism which works for higher prices and increased expenditures.

All these supra national elements included in the CAP seem to join their forces toward high level of support and explain to a large extent why it is so difficult for the council to come up with a more "prudent" price policy. The conflicts of national interests within the green Europe come on top of the farm problem of several member countries and explain why it is so hard for the CAP to be reformed in a way that would suit economic rationale. Rather, lame political compromises are the likely outcome of forces working at alleviating short run pressures which are themselves rooted in delaying adjustments needed in the past.

## II. The painful integration of European Agriculture : the rise of nationalisms.

The recent developments in the CAP show how little margin of manoeuvre decision makers have and how small the possible changes are. The current situation is quite constraining, the more so as the structure of agriculture is quite different from one country to another. Clearly, this heterogeneity has deep historical roots which still fuel the European farm problem in the 20th century.

### 1. Historical development of European Agriculture.

Even regarding simple indicators like the share of agriculture in the GNP, and in the active population, the member countries in EC appear quite different. Only Britain, the Netherlands, Belgium and to a lesser extent Denmark seem to have a farm sector where labor productivity is similar to the average observed in the overall economy.

Table 5. Heterogeneity of European Agriculture in the 1980's.

	Share of agriculture in (1) :				Intensity of farming (2)	
	GDP (1)	labor force (2)	relative productivity (1)/(2)	exports	tractors per 100 ha	size index (3) of farm units (standard margin)
D	2.2	5.4	.41	6.1	11.9	122
FR	4.3	8.1	.53	17.6	4.4	140
IT	6.3	12.1	.52	7.9	5.3	48
NL	4.5	4.9	.92	24.2	8.5	266
BE	2.6	2.9	.89	11.9	7.3	140
UK	2.3	2.7	.85	7.6	2.5	228
IRL	10.5	17.1	.61	32.0	2.1	61
DK	5.5	8.4	.65	37.6	6.5	185

Source : (1) Agricultural Report 1984  
 (2) 30 jours d'Europe Supplément : l'agriculture en RFA.  
 (3) average EEC = 100.

This situation is far from being new and refers back to the economic history of the 18th and 19th century. In 1951 the share of agriculture in total employment is still 29 % in France, more than what it was a century before in Britain (22 %). The explanation lies in the early developments of the industrial revolution in Britain in the middle of the 18th century and the parallel movement of enclosures and farming modernization which promoted a rapid growth of labor productivity (90 % over the 18th century, Niveau). By that time French agriculture was still quite backward and autarkic. Weak transportation infrastructure and trade restrictions did not stimulate regional specialization and farming methods were stagnant.

A movement towards free trade took place in the middle of the 19th century when the urban-industrial interests in Britain succeeded in the repeal of the corn Law (1846) and when Napoleon III signed the 1860 Anglo French Treaty of commerce ; Napoléon III had to resort to an international treaty (not subject to parliament approval) to overcome the opposition of the parliament to trade liberalization. A similar evolution occurred for a while in Germany with the treaty between the Zollverein and France in 1862 which was followed by treaties with other countries.

Overseas competition developed rapidly over the second half of the century. Cheap grains from the US and to some extent from Russia were increasingly imported. Rapid progress took place in transportation, both ground (The railway reached the Great Plains by the 1850's) and water (with the increased use of steel in larger ships powered by steam). So competition became quite threatening for European farmers, particularly of arable land.

The European countries reacted quite differently to this new situation, but everywhere long and fierce battles kept industrial and farm interests groups and also parliaments, quite busy. The contrast is quite strong between the defensive reaction observed in France and Germany, while

Britain, Netherlands and Denmark were mainly sticking to Free Trade. In Britain the urban-industrial interest was politically more powerful and kept trade free. At first Britain's farm sector suffered from contraction and the adverse social effects of labor migration which went along. But later on, the large British farms were able to improve labor productivity in a way comparable with other sectors. Denmark responded actively to competition by undertaking an important agrarian reform leading to the rise of a class of independent farmers, who specialized in livestock products. A similar reaction occurred in Netherlands where duties on grains were rejected as doing no good for agriculture ; farmers reacted by creating associations to improve the marketing and processing of their products and took advantages of the training institutes set up by government.

Table 6. British and French Agricultural Development

	Share of agriculture in				Index of relative productivity	
	Active Population		G D P		FR (3)/(1)	UK (4)/(2)
	FR (1)	UK (2)	FR (3)	UK (4)		
1801	75	36	42	32	.56	.90
1851	64	22	36	21	.56	.95
1891	45	10	27	8.6	.60	.81
1951	29	5	15	4.7	.52	.94

Source : Niveau (1966, p. 41)

In contrast with that trend, Germany under Bismark increased protection in the 1880's. After his dismissal in 1890 the stream was reverted to more free trade as a way to get outlets for industrial exports. The violent opposition of the prussian Junkers led to a considerable debate about relative protection provided to industry and agriculture. The farm interests eventually obtained satisfaction with the tariffs of 1902. In France, the coalition between the bourgeoisie who wanted protection for industry and the large farm - landowners organisations (la Société des Agriculteurs de France), culminated in the Méline tariff of 1892 increasing the protection for both industry and agriculture.

This period is quite crucial in the history of european agriculture, as much of the current heterogeneity seems to be rooted there (Table 6). Whether the main reason for agricultural stagnation in France is the protectionist shelter, the lack of parallel incentive to modernize farming, or the too slow development of industry, and the weak population growth with the correlative sluggish food demand (RUTTAN), is still an open question. This period is in contrast with the 1960's where structural policies (Pisani laws) and a booming industrialisation, lead to fast changes in the farm sector. But a lot remains to be done, and even taking into consideration the social hardship of farm laborers which occurred in Britain over the industrial revolution and the 19th century, many countries whose agriculture is still to be modernized, would rather have it as a bad memory than as a perspective to be faced now, particularly in a period of depressed economy.

## 2. The CAP under nationalistic pressures

Looking back at the period after the second world war when European integration was set forth, the memory of commentators seems to select mainly the enthusiasm and the strength of the European movement. Clearly one

recalls the failure of the Green Pool and of the EDC (European Defense Community) and the reluctant attitude of Britain, but the overall impression still is that the mood was clearly in favor of fair amount of supranationality in the European construction. The founders of the EEC had in mind the eventual objective of a federalist construction.

When one looks more closely at the successive steps leading to the Rome Treaty and the organization of the CAP, the strength of nationalism was still quite vigorous in the actual community life. During the transitional period the Germans who had the highest prices already tried to delay the agreed opening of their food markets to French and Dutch products, although this was the counterpart of the deal made, which opened French and other European market to the strong German industry. In 1961 this conflict prevented a 10 % tariff cut on industrial products which was part of the agreement to "accelerate" market unification, to take place. Clearly the so called "wedding contract" between France and Germany which involved reciprocal opening of frontiers to trade on industrial products from Germany to France and on agricultural commodities in the other direction, was hardly viable right from its birth. Of course public opinion in Germany was in favor of agricultural support for food security, after the painful shortages of the two world wars, which lasted until the fifties. The German farmers union have had a rather easy time keeping pressure on politicians and ministers to get high prices. In France the farmers were also able to get strong political support, using the argument of the poor situation of small farmers needing good price to reach reasonable incomes. Again the lack of efficiency and the poor farm structure in both countries made difficult any structural adjustment, therefore common prices were set a level closer to the German than to Dutch level. Here is also the starting point of the coming problems of EEC agriculture.

In the late sixties difficulties are already there and vice President Mansholt analysed them in a famous report. He mainly emphasized the need for

structural adjustment as the only way to give some flexibility to the price policy. Under poor and heterogeneous structures price support did not solve the income problem of poor farmers but made it impossible to balance markets. Surpluses were already seen as permanent in some products (Wheat, milk, sugar ...) and the impossibility for price policy as a unique instrument, to reach both economic and social objectives, was clearly stated.

But telling the truth to someone who has to die may not be psychologically wise. Farmers unions opposed the Mansholt plan from which they retained only the need to shrink the resources employed in the sector. Although the French youth branch of farmers union (CNJA) had accepted this perspective in the sixties they did not support the plan when they had acquired a dominant role within the elder union (the FNSEA). Debré, prime minister at the time, made the point that may be the analysis was correct, but that it was "politically irresponsible". To announce to a social group that its future is to wither or disappear is just "going beyond the threshold of social tolerance" (Petit, 1985). The plan was dropped as such but it was at the origin of the EC socio-structural directives issued in 1972 and 1975 ; but the quite scarce resources of the orientation part of the European Fund kept the structural policy short from the dimension of the problem.

If it was not possible to accelerate farm modernization in the buoyant sixties with fast growth, easy money and low unemployment, how would it be possible after the oil crisis ? One could argue it seems to me, that a country like France who claims having natural comparative advantage and an agricultural vocation ("Green oil") has missed the opportunity that the European construction was offering to her. By backing most of the time the German pressure for higher prices, particularly for grains, instead of supporting the Dutch views, France has slowly but safely closed durable and profitable outlets for its agricultural products and mainly for crops.

Keeping grain prices high looked like a good windfall for a large exporting country, (it actually provided most of the positive financial transfert accruing to this country). But in doing so it fostered production in supposedly less well endowed partners and, even worse, it induced food industry and animal feed industry to look for substitutes not bound by the generally high grain protection. Those did not wait too long to appear and have now reached quantities of a similar magnitude to EC grain net exports. This has been aggravated by the shortsightedness of our negociators in the GATT who conceded free entry of soja beans and cakes to get variable levies on grains accepted by the United states. Now a combination of cakes and manioc is able to replace grains in animal feed. Other by-products of the food industry have also been able to take advantage of this poor tariff structure which leads to distorsions and clearly is a huge cost on the budget (Mahé, 1984). This has also created an artificial competitive advantage in livestock and milk production to countries who have an easy access to world markets and an efficient animal feed industry i.e. the Netherlands and to a lesser extent Germany.

The situation is probably going to get worse for France in the long run since renationalizing forces seem to have taken strength over the seventies, first through the treatment given to the monetary problem and through the first enlargement and its aftermath.

The mechanism of the "green money" is in fact one more mistake made by France in the european construction, in order to help solving short run problems, but opening the door to long run drawbacks. The creation of the MCA's was seen as a mean to delay adjustment in farm and food prices in France in order to refrain from fueling inflationary forces which were already at work according to a long-lived disease of the french economy. It did not turn out to be an efficient policy to fight inflation over the "roaring" seventies, but it provided a way for strong currency countries

to follow a high price policy, which Germany and the Netherlands have done most of the time. Not only was it a balance of payments loss for France because net exports were taxed, but it allowed our competitors to maintain or increase their production capacity. This was a major twist of the wedding contract. Some people have argued that without the MCA's the CAP could not have survived and others that the MCA's have just compensated the over-valuation of the D. Mark. The first is debatable and as for the second, it is clear that American farmers who have been suffering so much from the dollar overvaluation (more than from the CAP as they usually infer), would have loved such a device as positive MCA's to improve their terms of trade. Again and once more, a means has been provided to plug agriculture out of the rest of the economy and to protect specific social groups from the adverse effects of international specialization, which other industries have to face with in other member countries.

Some clouds also were appearing by the same time on a different front and have turned into rain since : i.e. the enlargement and the financial contribution problem. A typical reaction of France to the "British complaint" was to stick to the golden rules of the CAP and to refer to the agreed acceptance of common principles. Countries, like a smoker who wants to quit, have to agree every day to what was decided before ; so that an important negative transfer as the one suffered by Britain was not to be durably accepted. After considerable struggle and sometimes trade battle particularly at France (like the nice case of the Newcastle disease argument to blockade french poultry) Britain eventually got satisfaction. But Germany also suddenly discovered it was the usual financial milk cow of the CAP, showed increased discontent with her budget contribution, so that France and other member countries have even to bear a share of the British compensation larger than their VAT key would imply.

Those are two strong cases where national interests have shaken a bit the so called pillars of the CAP (common prices, community preference and

financial responsibility). But there are dozens of other examples of special regimes and aids which have accumulated over the various price packages. A recent example of political compromise which illustrates the strength of renationalization forces is the milk quota. The cost of dairy surpluses had to be reduced or stabilized since under past price policies supply and consumption were diverging at a fast pace. The only way to maintain "interets acquis" of individuals and nations was to freeze production without decreasing prices too much. Countries which had modern efficient large dairy farms did not want the quota (UK, NL), but France and Germany felt they could not adjust to price cuts because of the importance of small producers and of the heterogeneity of the dairy sector. French socialist agricultural ministers came with a nice proposal to pay less the large farmers. This was obviously barred by partners with large and efficient dairy herds. Therefore, the quota provided a shelter from competing partner countries.

A last example under way may be worth mentioning which may be the forerunning premisses of the extreme evolution - the sugar regime is currently under review and there is discussion about how to raise new funds to lower the cost of exports. The proposal of the commission which agrees low production countries, is to increase the levy on the B quota i.e. on the exporting countries. Now we are at the cross roads if countries who export have to finance their own export cost, what is left from the basic principles ? From the point of France who is more dependent on agricultural exports more than the larger member states, the perspective of financial renationalization would be quite serious ? One may wonder if it would not have been better to keep a less protected but more long lasting outlet on the European market ?

### Concluding comments

According to Waelbroeck "success of future experiments in integration seems to depend on the ability of their proponents to devise ways of cancelling their effects on the distribution of income". But integration means free trade within the custom union, and freer trade does alter factor reward and therefore income distribution both between social groups and countries. No wonder then that given the interests at stake, the road of the CAP is paved with backsteps from the common principles.

The recent developments of the CAP illustrates the reluctance of member states to accept regional specialization in european agriculture (MCA's, quotas ....) and major income transfers between countries. But these transfers are made inevitable by the "common" level of protection relative to third countries. Since countries like France and Germany who have long delayed structural adjustment have a heterogeneous agriculture with a sizeable small peasantry, the protection is bound to be substantial, politically hard to reduce and costly to compensate by direct payments.

Achieving economic integration lead by a declining and protected sector like agriculture must cause problems particularly when the heritage of the past does not help. In that sense the alternatives proposed in the Green Paper, and the implicit preference for less price support and more structural changes may well have the same fate as Mansholt's plan. The more so as the southern enlargement increases the structural diversity of European agriculture and therefore the needs for more funds to help the modernization. The larger northern countries are not likely to follow that trend since they will have to bear the cost.

Aren't we going towards a more nationalized CAP where quota and national financial responsibility will be more used ? Clearly rich industrial countries will be under pressure to support their own agriculture and

they have the money to do that. They will not accept so easily international financial transfers and specialization within the European Community.

So France may well be more and more faced with less European outlets while her agricultural exports are crucial to the external balance. This may be the price to pay for having given priority to short run interests. But was it really possible to follow a different path given the heterogeneity of the farm sector ?

The rise of nationalism seems to get more momentum over the last decade "Nationalisms cause our political leaders to squabble over pluses and minuses and to neglect the really vital unity of Western European democracies" (Tracy, 1984). May be the member countries of EEC do not see so clearly any more the economic and political benefits of a united Europe. It would be too bad if the merchants kill the princess. Do they need economic or political threat from the outside to make progress towards unification ?

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