

# **AGRICULTURAL DEVELOPMENT AND AGRICULTURAL STRUCTURES POLICY**

## **ROZVOJ ZEMĚDĚLSTVÍ A ZEMĚDĚLSKÁ STRUKTURÁLNÍ POLITIKA**

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### **Abstract:**

While the agricultural development was strongly regulated by CAP in EU, no common agricultural structures policy has been built. So each State-member is quite free to have its own policy, nevertheless both policies are largely involved in development. What can be learned from the French case, since the beginning of EU?

### **Keywords:**

agricultural policies, agricultural and rural development, European Union

### **Abstract:**

Zatímco rozvoj zemědělství byl v EU silně regulován SAP, nebyla vytvořena žádná společná zemědělská strukturální politika. A tak má každý z členských států svou vlastní politiku, nicméně obě politiky se do rozvoje zemědělství výrazně zapojují. Co se můžeme naučit z případu Francie od počátku EU?

### **Klíčová slova:**

zemědělské politiky, zemědělský a venkovský rozvoj, Evropská unie

Everybody knows that, from the beginning of industrial development and, more generally, of modern economic development, agricultural development is necessary integrated in this one of global society. But the various modalities of its integration are not evident. Even if the agricultural society changes and adapts itself to general conditions, it keeps, as long as today, its own social and economic characteristics, which are not submitted to usual economic concepts: like products or factors markets, or profit firm. That observation explains why no one of economic developed states lets the market establishes a regulation of agricultural production, but uses a prices policy for agricultural products (with its various shapes); and also why agricultural structures policy is used to modify production conditions (very often to modernise them).

To be short, what we call today agricultural policy, with its two piles (first pile: prices policy or CAP; second pile: agricultural structures policy or R.R.D - Regulation for Rural Development 1999-), tries to obtain sure quantities for the populations with reasonable prices for the consumer (Rome treaty) and prices high enough to give equitable income for the producer (Rome treaty). That justifies both prices policy and structures policy.

As a curiosity, CAP, wanted by Stresa Conference and included in Rome treaty, did limit apparently the agricultural policy at its first pile, even though the two piles cannot be disjoined. So the question is: Why and How the first pile has been developed alone (at the common level) since at least 40 years. What can be learned from the French case?

## OBJECTIVES AND METHODS

The first objective will be to try to understand why the two piles has been separated, the first one giving the CAP, the second one national policies that R.R.D tries to harmonise since 2000. Analysis will be found on conditions of integration of agriculture in initial common market, then on their evolutions a half century long.

The second objective will be to try to understand how these two piles were separated, despite the fact that each one is linked to the other, and what agricultural development follows that separation for state-members. Here the analysis will be found on the conditions in which national policies (2<sup>nd</sup> pile) were implemented, in respect with the CAP.

To develop this analysis, we shall use mainly economic analysis done in historical approach, as well from history (like P. BARRAL in “French agrarians from Méline to Pisani”), as well from economics (like M. GERVAIS and al. In Rural France, 4<sup>th</sup> tome).

### I. WHY TO SEPARATE THE TWO PILES, FROM 1958 TO NOW?

Remind us the fact this question has been preceded by an another one: is it necessary to include agriculture in the projected common market by Rome treaty? In fact, those who wanted to built the common market (between the Six first State-members), encouraged by good results in E.C.S.C. (Economic Coal and Steel Community), but not so sure after green pool failure, asked them to know if common market was possible for every production (services production was not perceived at this time as the future most important part in Gross Product).

Two economic sectors were not sure at this time: agriculture and transports. In each case there was a strategic challenge (both military and economic), a production structure largely based on family units, non-submitted to factors markets (for labour and for capital), and heavy policies to regulate products and structures. For example, each of the six state-members, has been built its own policy related to agriculture role in economic development. Since many years, Netherlands has developed agriculture with elaborated products (they bought high quantity of feed grain, they sold dairy products, pork meat, ...), Germany has developed partly a very modernised agriculture (mechanised, motorised,...), while some Lander remained very traditional, with small farm units ; France has to face with independence wars and to realise an accelerated modernisation of its agriculture but not achieved in 1958 (at least she was self-sufficient) ; Italy has to face with a double sector in agriculture (North on one side, South on the other), with large imports and no mean to regulate really her agricultural productions.

Finally there were many good arguments to not include agricultural sector in common market and to let each state-member develop its own regulation. However, the real possibility to increase largely the production (the Six were a major buyer of agricultural products), the high potential of labour force in agriculture easily available (by modernisation) to move to industrial sectors, those possibilities, clearly perceived by those who were in charge of government at this time, were decisive. For example, French decision makers were highly persuaded that French agriculture can sale important quantities to the other Five partners, while the French industry has heavy effort to do to become competitive with German industry. So Rome treaty includes agriculture in common market.

But what about the two piles?

Common market is conceived and built to be a market (on which products are sold without any internal barrier). Nobody wants any measure on production structures (at the end of 50s years, only Netherlands has built an agricultural structures policy) which depend only of firm managers and/or national policies (like: fiscal laws, education and training, public services...). So and naturally, the Six will face to the enormous problem: how to unify their products markets policies to regulate production? To build a C.A.P. was not an easy thing to do, but so important: an agricultural production growth is opened (which can cover better populations needs and reduce import), while each State-member keeps the means to correct undesirable effects with its own structures policy.

Here the French case is very interesting to illustrate the things. Rome treaty is signed on March 1957, the 1<sup>st</sup> European regulation on cereals (common market organisation) is signed on January 1962, 1<sup>st</sup> step of CAP. French government prepared and obtained several major laws (august 1960 and august 1962, particularly) which organise the modernisation of French agriculture.

To be short, these laws organise: land question (the objective is to obtain larger farms which can use modern equipment), capital substitution to labour force (with subsidies and low rates loans to buy equipment), training of farmers and technical advisors system for them (like specific agricultural education system and technical groups), help to those who are old and want to cease agricultural activity (they can receive a specific annual indemnity, and leave their land, equipment, to the benefit of younger farmers), many dispositions to facilitate the sales of agricultural products (groups of producers are encouraged, big equipment for market are helped by subsidies,...).

These policies were so successful than, in 1968, surpluses appear in dairy products, while cereal and meat products were at a high level. So the separation between the two piles was discussed once more, and the Commissary in charge of agriculture, S. MANSCHOLT, proposed, in a famous memorandum, a strong policy including agricultural development and linking completely the two piles. Nevertheless, S. MANSCHOLT did not succeed to convince the six governments, because surpluses were not yet really permanent, and the perspective of enlargement to three new partners (which will be effective in 1973) opened better situation for agricultural markets.

Thus, gains obtained with national structures policies were considered decisive (see next part), furthermore a new management of surpluses appears in 1981, with dairy quotas, followed later by C.A.P. reform (1992), then Agenda 2000, which permitted to control production quantities, and to maintain a quite high rate of growth for labour productivity in agriculture. This is so true, than, when Greece (1981), Portugal and Spain (1986) joined the EEC, a structural Funds reform was necessary, but without a common agricultural structures policy, only a small harmonisation.

Today, if the main interest of C.A.P. is always admitted (but its modalities are hardly discussed), the necessity of the second pile is not considered like a common policy but like only a harmonisation of measures among which each state-member can choose those which are the best for him. The last enlargement to ten new members has not been followed by the decision to take in account the necessary structural changes in agriculture. In fact, the original idea, "no barriers to exchanges and let the best win" is always the main objective, so each state-member is invited to have its own structural policy to make his agriculture the best for one or several productions.

## II. HOW TO CONDUCT A NATIONAL STRUCTURAL POLICY IN EU?

For the analyst it is always simpler to define first what kind of agricultural development is wanted (to reach what objectives?), then it is possible to induce necessary policies to obtain it, with the two piles. Reality is more complex, even though Rome treaty defines the wished agricultural development, based on production structures with the family paradigm, C.A.P. lets each state-member free on the second pile.

In that conditions, each state-member, taking in account his own situation (and his own means, particularly financial ones) and also common objectives of EU, tries to define his policy about agricultural structures. In France, the laws of 60 and 62 have given a lot of means to obtain a French agriculture with a labour productivity higher than those observed in Netherlands or North of Germany. The possibility given by common market to increase significantly the quantities, was greatly in favour of a large modernisation of agricultural structures. The cost of that policy was high, but the effect of the first pile was to transfer the cost of prices policy from French Treasury to EAGGF, so the total financial cost was not so high.

The MANSOLT memorandum, reinforced in France by VEDEL report, have validated the French option which believed that natural conditions would give, when structures will have been modified, a competitive advantage for French agricultural products. However, when in 1972, the Six adopts their first common measures relative to the structures, the French policy did not use immediately these new opportunities, and stood on its position. Why? The 1972 directives include three socio-structural measures (160 – 161 – 162):

- one concerned indemnity to old farmers who ceased agricultural activity (and it was yet used), was considered only like a good opportunity to decrease the French financing,
- an other was devoted to develop global advice to farmers and was not used, despite the fact it could permit to increase progress in training, in adaptation and orientation of agricultural families, particularly those who were not in good position to modernise their farms,
- and the third one, probably the most interesting, initiates farm development plans, (real mean to modernise farms), which were changed in better material plans (mainly concerned by equipment) later, was used with several years in late. At this time (1972), French government wanted to give the first priority to young farmers – considered as the best group to modernise – against the directive which wanted to give priority to farmers with development plans, without consideration to their age.

Consequently, the modernisation of dairy production in France has taken a late, relatively to Netherlands, Germany and Great Britain. So, in 1984 when dairy quotas are adopted in EU, the quantities given to each state were linked with the levels of production they had in recent years (for France this level was lower than if development plans have been used earlier). This example shows clearly the advantage of a national policy for national development, but shows also the potential inconvenient: a small error on appreciation of common policy evolution may be paid cash.

An other example can be pointed out, environmental measures in agriculture. The first common measures appeared with “the 19<sup>th</sup> article” (1986), for which State-members let be free to adopt their implications. In fact, each one can choose between possible common measures (with a partial financing from Community) only those he considers like necessary for him.

So considering their situation about environment, about their financial possibilities and about their labour productivity, state-members did not react in the same way. In the French case, the trend is generally to wait for applications, it is not every time unjustified, if we consider financial consequences (see for example the norms imposed for cattle buildings). So the priority is given to immediate competitiveness, with the accepted risk that one day an eco-condition was adopted to benefit of first pile subsidies (and nobody knows what can happened in this case for any production or for any region in Europe).

Therefore, it is clear that since elements related to the first pile are known it is possible to have a national policy for agricultural structures, with the objective to maximise the gains from C.A.P. The main and evident advantage is to have an intensive policy which makes agriculture more competitive than partners' agricultures; the main inconvenient, besides the cost of this policy, is that a small error in appreciation can compromise positive expected effects and some time can produce important losses.

## CONCLUSIONS

The First one is very clear: as long as agriculture will be organised on a farm family production system, as long a policy of regulation will be needed. Nothing let us to think that agriculture production can be organised on other system, even though other systems are existing yet. In fact the family structure permits to have agricultural incomes lower than in other sectors of economy, and to have food prices lower than those which would give equitable incomes in agriculture. Developed economy, in its global sense, has advantage to have a family structure in agriculture.

The second one is also clear: as long as the first pile is continued, as long national policies for the second one are possible and wished by national authorities, because they prefer to choose their own development and they don't know how much it would be cost to have a common policy. We are not in a unique economy, but only in several economies with a common market.

The third one is that each state-member must take a great attention to the second pile, because international exchanges rules can be changed rapidly (Imagine a big success in Doha round: subsidies for prices will be reduced consequently, but consequent budget becomes available to structures policy), so subsidies could be decreased on the first pile and increased in the second (to help farmers income). Consequently, the second pile policy will become perhaps more and more common and less and less national. So, if measures are needed for production structures, it is probably better to do them now without any delay.

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