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SECOND EUROPEAN CONFERENCE OF AGRICULTURAL ECONOMISTS

DIJON, SEPTEMBER 1978

EUROPEAN AGRICULTURE IN AN INTEGRATING ECONOMY

AGRICULTURAL TRADE AND DIVISION OF LABOUR WITHIN EUROPE

INTRODUCTORY NOTES FOR A PANEL DISCUSSION

John MARSH :

1. We all miss the reassuring certainty of the text book. There given appropriate assumptions (of greater or lesser sophistication) we can demonstrate how particular forms of economic organisation will lead to preferred outcomes. Such arguments carry great weight and may determine the current orthodoxies of each generation of policy makers. The fact that often we look back on policy conscious of its inadequacy should, but does not always, warn us against over confidence in currently accepted notions.

2. Arguments about free trade and protection exemplify some of these hazards. Stated correctly the argument that a world practising free trade would be richer than a world divided into protectionist blocs is unchallengable - within its assumptions. Equally the arguments that protection is essential to enable some countries to adjust to changes in technology, to permit certain types of industry to achieve critical minimum levels of output and to exploit an individual country's bargaining position vis-a-vis the rest of the world is also persuasive - especially to policy makers who have to justify their decisions to domestic electorates. Although most would agree that international trade, as internal trade, permits a degree of specialisation of economic activity which should sustain higher levels of production and consumption many would also contend that in practical terms it is even more difficult to secure these benefits of the division of labour in international terms than within a country. Not least among the difficulties is the behaviour of other governments. Even if this stops short of protecting specific commodities or products it can still disrupt trade via differences in the way in which major national economies are managed. It is relatively easy for a country with stable prices and a strong currency to argue that others should be more disciplined and prepared to trade freely in world markets. From the 'weaker' country's viewpoint this may simply amount to telling its people that they must adjust the pace of their own lives to fit in with a speed determined by the material progress of the most successful. Since it is perfectly possible and intellectually respectable to have a value system which places a different emphasis on material goods than is consistent with main-

taining the same rate of growth in GNP as the most competitive countries it is understandable that countries may seek to protect themselves from adjustments (or a rate of adjustment) imposed by free trade with other parts of the world.

3. This pragmatic rejection of 'the advantages of free trade and the international division of labour' does not stop at national frontiers. Although the techniques of protection are different much national economic policy is concerned with regulating or resisting the imperatives of the market. Thus we have regional policies to sustain economic activity in declining areas; we provide subsidies, investment grants and industrial training to maintain employment in declining sectors and through public sector policies often favour domestic producers vis-a-vis foreigners. (Many of us have deficits on the accounts of our nationalised industries). Agricultural protection fits into this pattern. Domestic anxieties about the welfare of rural populations, about the security of food supplies and the management of the national economy have often outweighed the strong arguments for freer trade. Thus although the method and degree of protection varies its existence is a fact of modern economic life.

4. Sadly the prevalence of protection in agriculture makes the case for freer trade seem weaker than it really is. In a world experiencing rapid technical progress in agricultural production possibilities for profitable exchange alter and may well grow. For example given the more highly processed character of much European food it is at least thinkable that it might be cheaper to produce more of this in low income countries, process it there and transport it in 'finished form' to Europe. In a protectionist world technical progress, by adding to output in developed countries, may tend to depress international market prices increasing the extent of protection and making the transition to freer trade seem even more unattractive. Protection can also appear to justify itself in more dramatic ways. Eventually those who cannot sustain profitable production, despite the fact that they are low cost producers, may be forced to cut output. If bad weather or disease occurs shortages may occur accompanied by high prices and prophesies of impending world hunger. At this stage the 'world market' seems to have proved its unreliability and 'sensible men' seek to be 'self-sufficient'.

5. These difficulties in capturing the benefits of international trade and the division of labour and reconciling them with other important social and political goals apply within Europe. However within part of Europe, that covered by the European Communities they ought to be eased by the existence of a Common Agricultural Policy. Whereas in the general area of international trade the mechanisms of relating increased trade to internal adjustment have to operate country by country, in Europe common policies should improve the match between expansion in one sector and contraction in others so enabling adjustment to be more rapid, more efficient and less painful. By harmonizing actions in its various regions and between sectors the Community should be able to enjoy the benefits of unrestricted internal free trade on the same terms as a nation state. At the same time as the largest importer of many agricultural products it acquires considerable power - not to say major responsibilities - in international trade.
6. Measured against this prospect the attainment of the Community has been disappointing. It has exercised its power to sustain a high level of domestic protection. It has not allowed competition to work within its internal markets so that far from trade tending to concentrate production in low cost areas it has encouraged the reverse. It has not perceptibly eased or accelerated the process of secular change in agriculture so the gap between incomes in agriculture and in other sectors remains.
7. One important lesson from this experience is that trade problems cannot be resolved by action within one sector alone. For Europe adjustment in Agriculture, if it is to be acceptable, demands corresponding changes elsewhere in the economy. If jobs do not exist for workers who are displaced from farming, if food prices reach levels which perceptibly cut the incomes of poorer urban households or if housing, transport and the social infrastructure does not respond to the new economic pressures then the policy maker may have little freedom of action in manipulating agricultural policy. Within the EC this unacceptability finds an outlet through monetary phenomena, through a variety of differential national aids and through paralysis in the common price fixing process. Although the CAP could, by allowing internal prices to adjust in relation to trends in supply and demand, make competition work, it is frustrated from doing so by the same pressures which make unrestricted

free trade on a wider scale a political impossibility. If Europe wishes to have internal free trade it must also have a common managed economy. If it is not prepared to accept common management then free trade in one sector may be unattainable.

8. Although experience must make for caution in interpreting projections of future demand and supply there is an overwhelming consensus amongst 'projectors' that the European Community is likely, during the next few years to experience a more rapid growth in production than in consumption. The implication of the present operation of the CAP is that this imbalance will be financed by the Community even if it means a cut back in imports and the disposal of surpluses on world markets. To what extent such an eventuality will represent a further deterioration in the international division of labour cannot be assessed with confidence but initial impressions are disturbing. In Europe expansion reflects the further injection of capital often displacing domestic agricultural labour and forcing out of farming labour and capital in other countries. Given the scarcity of resources to meet the needs of people in the developing world, to use resources in developed countries to evolve a pattern of life and industry less dependent upon non-renewable resources and the extent to which current policies generate unwanted output and destabilise agricultural markets it seems probable that in the EC (and in many other European and developed countries) some urgent re-appraisal of ways to reconcile domestic agriculture with a responsible approach to international trade is needed.

John S. Marsh
University of Aberdeen
July 6, 1978

Michel PETIT :

Both the nature of this conference and the wording of this theme invite us to look at the subject from the point of view of trade between nations and to examine the effects of national policies. It seems however that, to clarify the matter, it is necessary to study first the development of trade between economic agents - between firms and between firms and consumers. In western european countries but also in eastern ones, it is at this level that the set of constraints imposed to any economy by production conditions can best be identified. In this perspective, it seems to me that we are witnessing, in Western Europe at least, a double triumph of the dominant model originating in classical theory which, starting with Adam Smith, considers that division of labour is the main factor in economic development. The advantages of this division of labour, and of its corollary specialization, are well known and they were highly praised by Adam Smith. Ricardo's comparative advantage theory, the basis of the neo-classical theory of international trade, derives directly from these advantages. Not only does this model prevail in the realm of ideas, facts also seem to vindicate it : increases in trade seem to accompany and to be one of the conditions of general economic growth. This dominant model runs however into many difficulties from the point of view of facts but also from that of ideas where its value as a normative model is questioned. Those difficulties must be taken into account to understand the main problems raised today by the development of trade. I will first present the triumph of the dominant model then, in a second part, the difficulties encountered.

I - THE TRIUMPH OF THE MODEL

(i) There is increased specialization :

between nations ;

between regions ;

between firms ; (this implies a reduction in the scope of farm production : tractors instead of horses ; factory butter instead of farm butter) ;

between sub-units of firms ("shops") ; (there is thus specialization by change in techniques which goes beyond Adam Smith's model).

(ii) Consequences with regard to relationships between nations
(political economy)

Which pressure groups are in operation ?

The classical model clearly plays a part in negotiations since it serves as foundation for the free-trade positions.

Knowledge of this is important to delineate the bargaining limits of the various groups.

II - SNAGS IN THE MODEL

(i) At the factual level :

consumption of food produced on the farm increases ;
multiple job holding by farmers ;
highly protected agricultures are retained (Austria,
Switzerland...).

(ii) At the level of ideas, rigid specialization and division of labour are criticized on account of their consequences on :

desertification of marginal areas ;
standardization of farm products ;
cumulative processes of enrichment and impoverishment.

CONCLUSION

"Modern" demands of the people for more decentralization in decision processes, worker management of firms, consumption of one's own produce, self-reliance, a society which would involve more "togetherness" ... must be taken into consideration. Thence a debate between quality and quantity of growth.

Michel PETIT
ENSSAA-INRA, DIJON
21 Juillet 1978