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***PROCEEDINGS OF
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European monetary union and agriculture

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1. Introduction

The establishing of the European Monetary Union (EMU) represents a tremendous leap forward the full realization of the European Union (EU). Therefore, it sounds quite strange that only a few studies on the sectoral impacts of EMU have been published so far in the literature, and this is even more striking with reference to agriculture, the sector which shows the highest degree of integration at European level¹. The purpose of this paper is, therefore, to provide an analysis of such impacts.

The issue is indeed complicated, and among the reasons that make the question intractable is that any analysis is severely constrained by the lack of data which could link the changes in the institutional and economic environment after the EMU and the agricultural sector. Therefore, we will carry out only a qualitative analysis of the likely effects of EMU on agriculture and agri-food industry, stressing that the perspective of analysis is the one of a Southern European country - like Italy - that is, the one of a country characterized by a relatively weak currency and a mediterranean agricultural production.

The paper is organized as follows. First we will provide an analysis of pros and cons of EMU from a global, i.e. general economy, point of view: we will use standard results of optimal currency areas theory as well as recent results of asymmetric demand for currencies and growth effects to make some comparative statics considerations. Then we will analyze the sectoral, i.e. agricultural, consequences of EMU: we will try to explain what if a country like Italy would have being left out the EMU and finally we will ask what could be the likely consequences of being in the EMU. In doing this, we need to broaden the picture, taking into account other major changes in the institutional set-up that frames the agricultural environment, i.e. the Common Agricultural Policy (CAP) reform and EU eastward enlargement - both foreseen in Agenda 2000 - and the incoming Millennium talk of WTO.

2. The European monetary union: pros and cons

The establishing of the EMU has several economic implications², which can be classified as:

- a) real effects, relevant in the medium-long run as consequences of the fact that the Euro eliminates both exchange rates instability within the EMU and the necessity to exchange money in international payments between EMU countries;

¹ Exceptions are the works of Yotopoulos and Josling (1996), Quadrio Curzio and Zoboli (1997), Yotopoulos (1997), and Romano (1997).

² This has been reflected in the huge literature on such a topic which has developed in the last decade (according to the *Journal of Economic Literature*, almost 200 titles have been published in English written journals since 1992): most part of such contributions are on the relations between the Euro and the theory on the optimal currency areas; a good deal of them is on the effects of Euro on the International Monetary System, while relatively less studied are the real effects in terms of growth and occupation. A handful of study focuses on sectoral impacts of the EMU.

- b) "transition" effects - the major part of which has been already manifested in the last months - deriving from the convergence toward a fixed exchange rates system in presence of freedom of capital movements and from the changes in single countries monetary policy, that will be unique for the EMU and will be implemented according to a different institutional set-up (i.e. a new "monetary constitution").

We will refer to real effects, that are more relevant for the purposes of this paper. Within this field, the theory of optimum currency areas (Mundell, 1961; McKinnon, 1963; Kenen, 1969) allows for the identification of static and dynamic effects (Baldwin, 1991), which can be further classified in positive and negative effects³.

2.1 Static effects

2.1.1 Benefits

The static benefits of the EMU could be summarized as follows:

- a) savings on transaction costs (commissions and spread in international exchanges), i.e. domestic economic agents can operate on commodities and financial activities of other EMU countries without incurring in the costs of changing currencies;
- b) reduction of current exchange rates volatility within the EMU (through the elimination of exchange rates, due to the adoption of a single currency), which could favor an increase of international trade and implies a reduction of real interest rates because of the lowering of risk premiums⁴. Moreover, since exchange rate fluctuations introduce uncertainty about the future revenues of firms, hypothesizing a risk-averse behavior of economic agents, there is a welfare gain in eliminating the need of insurance against exchange rate instability⁵;
- c) a better resource allocation as a consequence of price stability (low inflation) due to the actions and credibility of the European Central Bank (see Giavazzi e Pagano, 1988);
- d) finally, the most Euro-enthusiastics contend that, while the EMU by itself will not reduce unemployment, it may become over time a catalyst for more flexible labor markets and, hopefully, will induce a reduction of European unemployment.

2.1.2 Costs

Critics of the EMU (see, among others, Feldstein, 1997) contend that the new single-currency system will have negative economic consequences because it will deprive national governments of the ability to use independent monetary policies and exchange rate changes as instruments counter-acting cyclical shifts in output and employment. Moreover, Europe lacks labor mobility, price and wage flexibility and a system of fiscal transfers among states. Combined with different cultures, languages and histories, this makes Europe not an optimal currency area as prescribed by the theory. As long as Europe remains in an economic expansion, EMU could function reasonably well. But once the business cycle turns around, countries will lack the instrument of currency devaluation as a counter-cyclical measure and the Union might come under extensive stress, both politically and socially.

³ For an attempt of quantitative assessment of these effects, see EU Commission (1991).

⁴ However, it should be stressed that, besides the direct effects the reduction of exchange rates volatility on risk premiums, the transition to the EMU has induced a reduction of such risk premiums via the reduction of both inflation and public deficits, which are indeed two additional sources that impact risk premiums on interest rates.

⁵ There is also a welfare gain in having a strong currency that provides for exchange rate stability.

2.2 Dynamic effects

Dynamic benefits could derive from higher investments (as a consequence of static benefits) which will eventually end-up to a "permanent" increase in the EMU growth rate, according to what foreseen by endogenous growth models (see Lucas, 1988; Grossman and Helpman, 1991).

The benefits of being within the EMU will be even greater if the Euro builds up from a strong currency to a potential alternative reserve currency. Usually, authors think of this referring to seignorage benefits which accrue to the reserve currency.

However, we think that even more important are the implications of having the entire EMU output "tradable" for any output produced anywhere in the world as consequence of the fact that the Euro is a reserve currency: in a sense, current account balances between the EMU and any country in the world would become irrelevant, as long as the European Central Bank could pay for any trade deficits by printing and exporting more Euros, as it is the case with the Fed and US dollars in the USA. This situation will enrich additional flexibility to the country with the reserve currency, and will impose contraction in soft-currency countries (Yotopoulos, 1996), since in the latter takes place a process of shifting resources from the production of non-tradables to that of tradables, fueled by currency substitution and systemic devaluations, thus creating a negative feedback loop that leads to resource misallocation.

To enhance understanding of such a process, let's use Yotopoulos (1999) words:

«[C]onsider an equilibrium allocation where a bundle of resources produces tradables (T) and non-tradables (N), measured so that one unit of each is worth \$1. Entrepreneurs should be normally indifferent between producing one unit of the former or one of the latter. Should this equilibrium allocation of resources be changed one would expect to register losses. But this is precisely what happens in soft-currency countries. In the case of Mexico T trade in dollars while N trade in pesos. Since the soft currency may be devalued it becomes risky for Mexican entrepreneurs to produce (or hold) one unit of N that could not be converted for later spending into \$1. Expressed in another way, entrepreneurs see the future price of tradables increasing relative to the price of non-tradables and they are attracted to producing T because that is the cheapest way they can acquire \$1 from their bundle of resources in the future. This dilemma does not exist with the countries that have hard currency. For their entrepreneurs \$1 of T will always be worth \$1 of N in hard currency, contrary to the soft currency case where the expectation of devaluation becomes a self-fulfilling prophecy. In this scenario production in soft-currency countries becomes biased excessively toward T, despite the fact that the relative productivities of the bundle of resources have remained unchanged ex hypothesi. This excessive shift of resources represents misallocation⁶. It becomes the cause of inefficiency and output losses» (Yotopoulos, 1999: 14-5).

The intuition behind this parable is simple. Distortions inherent in free currency markets lead to systematic devaluation of soft currencies - to "high" nominal exchange rates. Devaluation of the exchange rate means increasing prices of tradables and leads to increased exports. But not all exports are a bargain to produce compared to the alternative of producing non-tradables. Currency-substitution-induced devaluations can lead to "competitive-devaluation" trade as opposed to "comparative-advantage" trade: competitive-devaluation trade is misallocating resources against non-tradables at great cost to growth and to the detriment of development.

2.3 Summary evaluation

The majority of the authors agrees on the fact that the overall balance is positive, i.e. costs

⁶ Wouldn't the process make N relatively scarce and help restore equilibrium? This is the classical textbook case. But the answer is "no" in incomplete markets where there is "bad competition" that sets off a race for the exit of currency substitution.

will be more than offset by benefits⁷. Probably the truth lies somewhere in between critics and defenders. Critics of EMU exaggerate the importance of currency devaluation as a policy instrument: apart from the fact that devaluation works only in the short term, the effects being promptly offset by rising inflation, there is broad evidence that in highly industrialized countries even in the short run devaluation has a very limited impact⁸. On the other hand, the proposition that the creation of the EMU might become a catalyst for more flexible labor markets seems dubious⁹.

However, it is clear that a quantification of such a balance is not only very difficult, but also partial, due to the paramount political value of being within the EMU. In particular, for Italy it can be said that

«[I]t is likely that both benefits and costs of EMU (...) wont be so high in the short-medium run. What makes important the Italian participation to the EMU is the intolerable political cost (and in the long run economic too) of being out: the creation of a core group of European countries, that makes decision about EMU economic policies without "Out" countries will eventually marginalize the latter and will hurt the economic integration (not only monetary integration) with the heart of Europe» (COMIT, 1995: 31).

Not only that. Italy is a country that despite its unsustainable public finance records¹⁰ has not been able to start the structural adjustments necessary to recover from macroeconomic unbalances. It has been only after the political decision of trying to join the EMU since its inception, made by the Mr. Prodi government in the second half of 1997, that Italy started struggling for fulfilling the Maastricht convergence criteria, and this has been the first attempt since early sixties to move towards a more sound budget policy. The "instrumentality" of using the convergence criteria to make the needed structural adjustments represents a value *per se* for a country that has proven not to be able to self-reform without the imposition of "external" constraints.

This is just a first bite of what will be the life within the EMU: under the Stability Pact, Italy is committed to have a macroeconomic discipline it has never had in the last thirty years or so. The premium of such a sound behavior is the gaining in credibility of its economic policy (Giavazzi and Pagano, 1988). In some sense this represents the most valuable reward for Italy: being an "In" country, Italy is actually "borrowing credibility", i.e. reputation, as witnessed by the recent performances of the Italian lira during the Asian financial crises last year¹¹.

Finally, we think that the greatest advantage for a soft currency country, like Italy, is the adoption of a stronger currency, like the Euro, which rules out systematic devaluation of the

⁷ Even though there are some important more skeptical view (see, for example, De Grauwe, 1997).

⁸ Large shares of capital goods and high-tech products in their trade flows restrict price elasticities and the ability to transfer exchange rate changes into the real economy: the textbook case is Germany that, despite an appreciating currency, had almost permanent trade surpluses during the last 25 years.

⁹ In fact, to make these markets flexible - and eventually to diminish unemployment in Europe - require fundamental changes in labor legislation, deregulation, diminished power of the labor unions and removal of cultural and linguistic barriers to induce people to move in search of jobs.

¹⁰ Just before joining the EMU, the Italian public debt was around 120% of GDP and interests on such debt were as high as 9.6% of GDP, partially financed by the primary balance (5.4% of GDP).

¹¹ Despite the fact that the EMU was not yet established, the simple fact that Italy was an "In" country ("Ins" were announced on May 1st 1998), has preserved the Italian lira from devaluations, as indeed has not been the case for other weak European currencies like Greek dracma and Danish and Swedish kronas, as a consequence of the Asian crises.

former¹², caused by the asymmetric demand for money (Agènor, 1994). As proved by Yotopoulos (1996), this has direct effects on growth performances, and this will be especially true if the Euro will be a reserve currency.

3 Emu and agriculture: constraints and opportunities

The importance of agriculture has been big within the EU, and the impact of the EMU on the sector can have serious political and economic ramifications. However, the assessment of EMU impacts on agriculture is particularly complicated, because European agriculture is still in a flux (EU Commission, 1997) and because of the lack of data which could link the changes in the institutional and economic environment after the EMU and the agricultural sector. Therefore, we will carry out only a qualitative analysis of the likely effects of establishing the EMU on agriculture and agri-food industry.

3.1 The two-speed Europe scenario

EU countries have striven for being members of the EMU since its inception, and now we can say that they largely succeeded. This is good, since it reduces the risk of the so-called "two-speed Europe". If this were the case, we should have expected exchange rate instability between the Euro and the Outs, because of the asymmetry in the demands for a reserve currency like the Euro and the soft currencies of the Outs (Yotopoulos, 1996; Yotopoulos and Josling, 1996). Further flexibility of the currencies of the Outs, let alone systematic devaluations, could have precipitated a throwback into the future: the need of an agri-monetary system (AMS), the core of which is represented by the so-called "monetary compensatory accounts"¹³ (MCAs).

The establishment of the EMU, with uniform pricing (in the same currency) and the complete integration of the internal market, should have permanently delegated the MCAs to the dustbin of historical *curiosa* (see next section). While this is correct for the In-countries, the situation of the Outs is a replay of the French devaluation of 1969 that calls for the reinvention of the MCAs, with a vengeance. Systematically weakening currencies for the Outs not only pose the risk of inflationary pressures, but also make their imports from the Ins more expensive (Yotopoulos and Josling, 1996). A return to the MCA system with its import-subsidy element would theoretically solve the problem, but subsidies would require action at the internal borders of the weak-currency countries, and these borders have been abolished. Should they be re-erected, this would represent regression from the single internal market (established in 1993).

The Outs could of course explore the possibility of unilateral action through "competitive"

¹² It is interesting to stress how clear has been this point to EU citizens: several polls, published in 1997-98 by *The Economist* as Eurobarometer, ranking percentages of people in favor or against the EMU, has been exactly the mirror image of the relative strength of each national currency, i.e. Italians were the more enthusiastic in substituting the lira for the Euro, while Germans were far more reluctant in abandoning the Deutsche mark.

¹³ An exchange rate realignment of the French franc and the Deutsche mark in 1969 enriched the CAP with the appendage of the MCAs. Given the objective of uniform CAP price of intervention commodities, MCAs taxed (at the border) the "cheap" exports of weak currency countries and subsidized their "expensive" imports, while symmetrically subsidizing the exports and taxing the imports of strong currency countries. In time the usefulness of the MCAs became dubious as they became the most important distortionary element of intra-EU agricultural trade, in the sense that their effects went well beyond the off-setting of arbitrage and inflationary impacts of exchange rate movements between weak and strong EU currencies, penalizing too much the former and subsidizing too much the latter countries. Finally, and after 25 years of operation the system became obsolete when the borders, as a collection point for MCAs collapsed with the completion of the single internal market (established on January 1st 1993).

liberalization. The country wishing to offset the negative impact of higher import prices could simply reduce the protection at the border, importing cheaper goods from outside the Union: this would fly in the face of the Common External Tariff of the EU and the concept of a uniform external border. As such it would be even more politically difficult to gain agreement from other member states, which would certainly fear a spread of the "renationalization" of trade policies to other areas. It would also imply the reintroduction of borders within the EU, at least around the core countries, and eventually risks of a breakdown of the EU. Such action, besides being politically divisive, could also exacerbate the adjustment problems for the Outs. In other words, the issue of competitive prices and of the price-cost reverse escalator would still be the "farm problem" that had bedeviled EU agriculture in the last decades. From a national point of view, we could say that not having succeeded in joining the EMU, would have affected negatively Italian consumers, since Italy has a huge agri-food trade deficit and, being systematic devaluation of Italian lira versus the Euro a self-fulfilling prophecy, Italian agricultural imports from Ins countries - which are, indeed, the largest part of Italian agricultural imports - would have been relatively more expensive. On the other hand, being an Out country, would in principle have granted Italian producers because of beneficial short run devaluation effects on Italian agricultural exports. However, this statement is incorrect in the long run as shown by the literature on macroeconomic linkage (Josling, 1984; Andrews and Rausser, 1986; Romano, 1997), which proves that the long term effects on the agricultural sector of competitive devaluations are eventually negative. Besides that, if MCA would have been again operating within EU in order to avoid arbitrage and inflationary pressures between Ins and Outs, the alleged positive effects of competitive devaluation would have been much less pronounced or even more than counterbalanced, as it used to be under the AMS.

3.2 Consequences for ins countries

3.2.1 Dismantling the agri-monetary system

A first important consequence of EMU is the dismantling of the agri-monetary system. In fact the news of the death of AMS in 1993 was greatly exaggerated: the system survived its "abolition" in various forms (Ritson and Swinbank, 1997) until the adoption of the single currency put intra-EMU exchange rates out of business, thus dealing a fatal blow to the main cause of divergence of farm prices among the Ins. In theory, at least, one advantage of the Euro is that it heralded an after-AMS life that helps concentrate the mind of EMU's farmers on competitiveness. In practice this brave new world represents a gain for the farmers who are competitive. It represents a loss for all growers of "intervention"¹⁴ commodities, whether they are competitive or not - at least to the extent that the "compensatory payments" of the CAP reform do not fully offset the (lost) benefits of the AMS.

The advent of the Euro freed the Ins of the tyranny of exchange rates in a second way also, which potentially has vast implications for competitiveness in the EMU: cross-border trade that was previously settled in foreign exchange is now being settled in domestic currency, the Euro. As pointed out by Yotopoulos (1999),

«[T]he transition to the Euro is a significant economic event for the countries with softer currencies, who had their imports denominated in foreign exchange - say the DM, the FF, the BP or for that matter the US \$ - and had to settle their current account overruns also in foreign exchange. Since Portugal could not pay for imports of French wheat in escudos, it could import only as long as it could shift re-

¹⁴ That is, commodities whose price was set institutionally by the EU, using a *mix* of trade instruments (external tariffs and, more generally speaking, protection barriers) and/or market subsidies, which eventually guaranteed higher internal prices as compared to international market prices.

sources from nontradables (or rather "nontraded") to tradables ("traded") - which in turn could be exported to procure the FF to pay for the wheat. In a world where the shift from nontraded to traded is not costless, a gap in the balance of payments can become binding. This is no more the case in Euroland. Effectively Portugal can pay for French wheat by the proceeds of producing more haircuts for the domestic market, since both Portuguese haircuts and French wheat trade in euros. The EMU makes in effect the current account balances among the Ins irrelevant. The situation is equivalent with the state of the world that Arkansas and California face in the USA. The former is a poor state, the latter is rich. But Arkansas enjoys a tremendous advantage in not having to produce "exports" to pay for importing pentium chips from California's Intel Corporation. Similarly, by joining the EMU the 11 Ins have made all their outputs, from haircuts to computer chips, exchangeable in "home" trade and in domestic currency. Another way of putting this is that tradability has been redefined in the EMU, by shifting things that were imported and exported previously from the tradable column to the nontradable column of the ledger. Only trade conducted with non-Euroland partners is international trade post-EMU, which means that self-sufficiency has increased and the share of trade in GDP has shrunk» (Yotopoulos, 1999: 3-4).

The real implications of this process are that the abolition of the internal foreign exchange borders in EMU had a profound effect in decreasing trade with the outside world – which is increasing self-sufficiency of the Ins. Self-sufficiency has a negative ring to it, since it evokes images of trade diversion. In this case self-sufficiency is an unmitigated blessing, since «it is not based on closing-in but on opening-out» (Yotopoulos, 1999: 6). It means that the same goods and services that were paid previously in foreign exchange are now obtained from the very same sources in domestic currency. The benefits of the Euro that derive from dispensing of current account balances for the Ins accrued mostly to the countries with the weakest currencies that faced, as a result, a binding foreign exchange constraint. The choice of paying in domestic currency or in foreign exchange becomes irrelevant for the strong-currency countries - and *a fortiori* for the reserve-currency country.

From the Italian point of view, we could say that AMS dismantling coupled with the joining of the EMU, which means the adoption of the Euro which is a stronger currency as compared to the Italian lira, would have positive effects on Italian consumers (since Italy has a huge agro-food deficit and a weak currency) and in principle would benefit Italian producers as a whole¹⁵ also, because of the distortionary effect that the AMS had played against Italian productions in intra-EU trade.

3.2.2 Effects on competitiveness

From the above, we can conclude that the establishing of EMU stimulates efficiency mechanisms and, therefore, can have significant impacts on competitiveness. Those trends are reinforced by the so-called Agenda 2000 (EU Commission, 1997) and by the likely outcomes of the incoming WTO Millennium talk¹⁶.

Tough international competitiveness seems to be a plain and measurable concept, when we deal with sectoral and country international competitiveness the concept definition is more tricky. Recent research efforts have tried to clarify different dimensions of such a concept. A first group of variable refers to *ex-ante* international competitiveness, whose elements are the

¹⁵ This does not mean, however, that some categories of producers - namely the ones subsidized by means of intervention prices under the AMS - would not be worse off after AMS dismantling.

¹⁶ Agenda 2000 is the planning budget document who sets political and economic objectives for the EU in the next decade: among others, a special emphasis is given to the efficiency improvement objective, on the basis that more efficiency is required to compete in an even more open and interdependent world. This take explicitly into account the current mood, which recognize the need for a more open international trade, upon which the next WTO talk will be rooted: the likely outcome of such a talk will be the reduction, if not the dismantling, of residual barriers to free trade at international level. Again, this calls for higher competition among firms and systems of firms, which in turn calls for more efficiency.

traditional production costs and firm productivity, especially if coupled with the signaling value of export performances, import shares in domestic markets, unit values of imports and exports, terms of trades, etc. A second group of variables refers to technical progress and innovative capabilities, as signaled by R&D investments, number of patents, human capital characteristics, etc. When quality¹⁷ is at stake, unit production costs represent only one component of competitiveness: in this case product differentiation, market segmentation and market structure become important. Those aspects are gaining increasing importance as witnessed by EU trade, which is mainly intra-industry trade of goods belonging to the same commodity category but differentiated according to the final demand requirements.

This means that international competitiveness is a multi-dimensional concept¹⁸. When applied to agriculture and agri-food industry this means that the competition push caused by the EMU can have different impacts for different component of these sectors.

3.2.2.1 Agriculture

Though with some approximation, we can identify two broad agricultural typologies within the European agriculture - and especially within the Italian agriculture - which can be differently qualified with reference to competitiveness:

- a) agricultural systems often localized in marginal areas, very important for environmental and landscape conservation, characterized by highly differentiated quality productions: those systems largely overlap with so-called "endogenous" rural development patterns (Romano, 1996; Polidori and Romano, 1999), mainly located in mediterranean regions as well as in hilly and mountainous areas;
- b) agricultural systems producing agricultural commodities, i.e. bulk and largely undifferentiated goods like cereals, feed grains, meat, etc., whose market is virtually the whole international market: those agricultural systems are typical of so-called "modernization" development patterns (Romano, 1996; Polidori and Romano, 1999), often involving continental agricultural products which were - and largely still are - also "intervention" good under the CAP.

As Polidori and Romano (1999) have put it,

«The production of the latter does not require the use of resources with particular qualitative characteristics and they are exchanged on markets where competition is virtually global: this implies a weak link of production practices with its territorial basis. In terms of product characteristics, agricultural commodities are subject to standardization according to technical requirements of the processing industry.

On the other hand, in the case of high quality products, it is the final consumption which commands for the standardization of their qualitative characteristics: however in this case standardization doesn't mean homogeneity among categories of products, but homogeneity within each category of products, i.e. differentiation of products niches» (Polidori and Romano, 1999).

Competitiveness necessarily entails different elements for the two types of agriculture: while agricultural commodities competition is played mainly as price competition (i.e. production costs and farm productivity are the most important variables), agricultural quality products play a different game, namely non-price competition based on quality concerns, market segmentation and exploitation of quasi-rents stemming out from such a segmentation.

Now, how the EMU and other institutional changes will affect this two "agricultures"? The

¹⁷ Quality is a complex concepts which involves the quality of implied raw material, product reliability, product performance, final consumption differentiation, etc.

¹⁸ Acknowledging such a multi-dimensional character of competitiveness is essential to understand some performances both at national (e.g. Italian textile and fashion goods) and international (e.g. German export as a whole) level: despite higher unit production costs, export performances are dominated by "quality leader" countries (EU Commission, 1996).

current institutional environment is characterized by the transition toward decoupled intervention under the reformed CAP (which means less subsidies for what used-to-be intervention commodities), reduction of trade protection as a likely result the incoming WTO talks, and the adoption of Euro, which will be a strong currency, if not a reserve currency. All those changes will put under further competitive pressure the agricultural systems focusing on commodities production, such as cereals and animal products (Quadrio Curzio and Zoboli, 1997). On the other hand, this will increase the comparative advantages of agricultural systems that enjoy natural advantages and engage in "niche" agricultural (and agri-industrial) production, especially if their processes happen also to create positive environmental externalities (Romano, 1998): these agricultural subsectors are likely to successfully fend off the pressures of competitive pricing.

Of course, the above mentioned competitive advantages are only "potential" advantages. In order to be fully exploited some preconditions and economic behaviors need to be fulfilled¹⁹. The two most important preconditions are the existence of:

- a) a high per capita income (and cultural level), which let the consumer to have access to and appreciate high quality products, that is the increase of per capita income triggers, through the action of the Engel's law, the consumption of high quality goods, that are normally exchanged at higher prices (niche-products);
- b) an institutional set-up that safeguards and valorizes typical high quality productions. In fact, the institutional support to the production and valorization of a quality product - via labeling, marks, and tipicity denominations - allows for market segmentation, higher prices, and potentially higher added value deriving from the production of that goods.

In summary, quality products seem to be in a better shape as compared to agricultural commodities, and the establishing of the EMU does reinforce those dynamics.

3.2.2.2 Agri-food industry

The EMU can induce increasing convergence and similarities among the Ins economies, mainly in terms of macroeconomic fundamentals. However, at sectoral level we could expect a further push toward regional specialization. The Italian agro-food industry is characterized by low technical and organization concentration rates: this means there will be room for further concentration processes aimed at exploiting potential scale economies and, hence, at pursuing strategies of efficiency improvement (production costs and firm productivity).

On the other hand we should recognize that the low concentration in the sector depends on the highly variety of Italian agri-food productions, on its craftsmanship character and on small and medium size of its firms, which are organized in production systems similar to industrial districts (Romano, 1999). This means that it can be pursued industrial and marketing strategies based on the exploitation of agri-food products quality.

The sector dynamics in the last decade confirms the importance of both strategies: the Italian agri-food sector has been the first one in terms of merges and buys and one of the most important in terms of foreign direct investments. While market penetration motivations cannot be ignored²⁰, it is also clear that at least part of such strategies were aimed at exploiting so-called "ownership advantages" (Dunning and Narula, 1996), that is acquiring trade marks, exclusive innovations, products specificity, and eventually the capability of exploiting such assets by multinational firms.

The EMU impact on the agri-food industry competitiveness does not seem to be negative. In-

¹⁹ See Polidori and Romano (1999) for an analysis of such conditions, with an empirical application to the case of Chianti Classico wine.

²⁰ That is, in order to penetrate EMU markets, it is relatively easier to buy Italian firms, which are usually characterized by a small and medium size and by a highly market fragmentation, than do this in France or Germany.

deed the sector is mainly characterized by intra-EU trade, and this means that the sector performances will be influenced mainly by the overall competitiveness of each country as a whole (which in turns depends on its infrastructures, the quality of human capital, the degree of innovation, etc.). On the other side extra-EU international competitiveness, even in the case of a strong Euro, will be the resultant of off-setting forces: if it is true that agri-food firms would be hurt in terms of exports because they will sell relatively more expensive products, they could be helped by buying relatively cheaper raw materials in international markets. Even more important is the possibility that these firms have in terms of mark-up pricing and marketing strategies, due to the fact that agri-food products are highly differentiated, markets are segmented and their structure let these firms to exploit market power and rents appropriation.

4. Conclusions

The introduction of the Euro has been a momentous event that brings about far reaching consequences, both at global and sectoral level. Looking at consequences from the point of view of the whole economy, we can conclude that the overall balance of pros and cons of being an "In" country is positive for Italy, and for the same token, for others weak currency southern European countries.

From the point of view of sectoral consequences, we can say that the establishing of EMU has had an important impact on agriculture already. It has transformed the sector by converting effectively about one-half of all foreign trade in agricultural commodities into domestic exchange transacted in the local currency, the Euro (Yotopoulos, 1999). In other words, the Euro has made the objective of unitary prices accessible for the first time without bureaucratic curlicues and political double-talk and it has made Euroland more self-sufficient in agriculture. On the other hand, the main sectoral consequences of EMU - i.e. the disappearing of the agri-monetary system and the adoption of Euro, which will be a strong currency, if not a reserve currency -, coupled with the CAP reform - characterized by the transition toward decoupled interventions, which means less subsidies for what used-to-be intervention commodities -, and with the likely result the incoming WTO talks - i.e. the reduction of trade protection - will have the effect of increase competitiveness and freedom in agriculture, including greater freedom for farmers to fail.

All those changes will put under a tremendous competitive pressure the agricultural systems focusing on commodities production (i.e. highly undifferentiated bulk products, like cereals, feed grains, meat, etc.) by non-EU countries on mere production cost basis. At the same time, those institutional changes will increase the comparative advantages of agricultural systems that enjoy natural advantages and engage in "niche" agricultural and agri-food processing productions, especially if their processes happen also to create positive environmental externalities (Romano, 1998). These agricultural productions, which belong to agricultural systems usually characterized by endogenous development patterns, are more widespread in Mediterranean regions as well as in hilly and mountainous areas, and seem to be better equipped to successfully fend off the pressures of competitive pricing. Therefore, at least part of Italian agriculture seems to have a comparative advantage as compared to other EU countries, as well as non-EU countries.

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