run such an effort is bound to give rise to disturbances and dislocations on the credit market.

This is clearly illustrated by developments on the Swedish credit market in the course of 1952. One such disturbing effect has been a splitting up of the previous pattern of interest rates. The priority rates for the obligations of the Government and local authorities and for housing finance have been maintained at the 4½ per cent level, but in the free section of the market rates have tended to rise. Thus, for instance, for fixed loans to industrial borrowers granted by insurance companies the rate has risen from 4 to 4½ to 5¼ per cent. For insurance companies and other institutional investors this increasing spread has made it more tempting to invest in such loans and in industrial bonds, to the detriment of investments for the priority purposes for which the interest rate has remained frozen. In spite of the agreement between the Riksbank and the insurance companies it has been impossible to prevent such a market influence from operating on investment decisions, all the more so since a great many institutional investors remain outside the official control. As a result it has become increasingly difficult to satisfy precisely those credit demands which the authorities have tried to favour through its policy of cheap interest rates, i.e., mainly housing finance.

Another undesirable effect is a certain splitting up of the credit market as a result of the official credit restrictions imposed upon the banks. As the lending policies of the banks have been tightened up, there has been a tendency for private lending operations at higher interest rates to increase. This private credit market has, of course, been fed by withdrawals from the deposit accounts in the banks, and has thus increased the difficulties of the banks in meeting the legitimate credit needs of their regular customers. It is true that this disorganisation of the credit market has not yet reached any alarming proportions, but it may eventually give rise to concern should the present system of credit restraint combined with artificially cheap money rates be continued over a lengthy period.

Conclusion.

It is perhaps too early as yet to judge the effects of the policy of credit restrictions introduced in Sweden in the beginning of 1952. Developments during the year do seem, however, to permit of certain preliminary conclusions.

One such conclusion is that the restrictive monetary policy has been an important contributory factor in bringing about a greater measure of stability in the economy. The fact that the strong and persistent inflationary tendencies that characterized the Swedish economy in the first post-war years and in the period 1950-1951 could not be effectively kept under control must be largely ascribed to the failure of the monetary authorities during these periods to restrain the creation of new money.

A second conclusion is that a qualitative regulation of credit either by voluntary agreement or by selective controls cannot work effectively by itself but has to be combined with a sufficiently rigorous quantitative regulation of the supply of loanable funds in the banking system. The failure of monetary policy in Sweden to cope with the post-Korean inflationary upsurge can largely be explained by a lack of coordination between these two elements of credit control.

A third conclusion is that a policy of credit restraint cannot in the long run, without causing serious dislocations on the credit market, be carried through if the rate of interest is not allowed to rise to a level that equates demand and supply in the market for loanable funds. In this sense the monetary authorities in Sweden are at present facing with a difficult dilemma. As long as certain purposes of credit are to be given a favoured position in the distribution of credit the authorities will have either to accept the market pressure for higher rates for these «priority» purposes also, or they will have to increase the supply of funds through expansive central bank operations. Which way out of this dilemma will ultimately be chosen is not yet clear, but obviously the latter course would mean a retreat from monetary policy which would be hazardous so long as the risks of a new inflationary upsurge are not yet definitely overcome.

Myths and Realities of the European Green Pool

by

G. U. PAPI

1. What does «Pool» mean?

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

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

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

2. How the idea of the green pool arose?

How did the idea of the agricultural pool arise? It arose, we may say, from the deadlock reached in the effort made by several international organisations to increase the volume of international trade in the agricultural field. Widespread scepticism prevailed as to the possibility of lowering customs barriers and repeating quotas and other obstacles that still hinder the movement of goods, services, labor and capital as between the several countries. Indeed, the pressure of small farms, strategic and social considerations have frequently led to the adoption of protective agricultural policies which—though unjustifiable from a purely economic standpoint—would be difficult suddenly to repeal.

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

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

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

3. The functions advocated for a joint organisation.

A policy aiming at the technical progress and rationalisation of agricultural production, so as to raise the living standards of the popu-
lations and confer a complementary character on the economics of the several countries, requires that the "markets be organised" at least for some of the more important staples.

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

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

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

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

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

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

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

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

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

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

Substantially, under this plan the several countries are no longer judges of the protection that should be given to their own agriculture. They have to obtain the approval of the High Authority; i.e., they have to reconcile in this matter their national sovereignty.

5. The French Pfîlmolin Plan.

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

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

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

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

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

(d) The French Government considers the method of "progressive and elastic action" necessary, that is to say it favours the provisions of the necessary measures and the avoidance of any automatic mechanism. Practically, it would limit action to a few staples - wheats, dairy products, sugar, wine - and would proceed by stages, and not by any "violent merger" of the several economies.


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

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

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

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

Thus, while the Mansholm Plan provides for a European price in order for the trade between European and non-European countries, the Charpentier Plan provides for a "European" price, to all trading transactions, inclusive of those between countries members of the pool. Both plans agree in depriving
the Members Countries of the right to determine the measure of protection to be granted to their own respective agricultures, and would confer that right on the High Authority.


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

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

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

The decisions of this Authority would take the form of recommendations to the Governments.

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

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

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

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

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

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

If these several targets are to be attained, it would seem necessary that the Community should have at its disposal an institution possessing the right to take decision and to deal in arbitration. The Memorandum stresses the undesirability of setting up purely consultative bodies that would merely be replicas of the many which, on the European or World plane, have been formed to promote international cooperation in agriculture.

9. Grounds for the new requests.

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

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

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

As to the difficulties experienced in the balance of payments, the O.E.C.E. calculated that when the Marshall Plan credits cease in 1952 the food shortage in Western Europe will require - in view of the growth of population at 10% as from 1950 — imports amounting to some 5 billion dollars a year, of which half will have to be paid in dollars only.

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

10. Other Facts.

The studies made by the Food and Agriculture Committees of the O.E.C.E. show that the best contribution that can be made to promote agricultural expansion is to be found in a policy for producing larger quantities of food for livestock. This would not only make it possible to reduce the importation from non-European countries, but would reserve for human use bread cereals now fed to livestock, while imported feeds - as a percentage of total supply - amount for 14 to 17% in Belgium, Holland, and the United Kingdom; for 9 to 10% in Switzerland and West Germany; for 2 to 5% in France and Italy.

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

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

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

It may undoubtedly seem strange that students and statisticians are asked to consider novelties which, at first sight, seem out of keeping with the rapidly changing situations of our day, so full of contradictions. Contradictions between the policies followed by some countries destined to large exports of liberallisation, and the policies of others destined of protecting at all costs certain products. Contradictions between autarchic policies which aim at producing in the home country under defi-
13. Would participation in the pool entail the obligation of exclusive recourse to it for imports and exporting a given product, from and to the rest of the world; or would it be binding only for a given quota which would enjoy priority?

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

14. The difficulty of arbitrating a European price.

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

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

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

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

15. A study of the several plans shows that the Dutch one would provide for fixing a "European commercial price", which might differ from the national one. For the exchanges between the two countries the plan foresees that each Government will levy a duty on the importer when the national price is higher than the European at which the staple will now be bought; or else it will grant a subsidy to the importer when the national price is lower than the European one. Now, it will be impossible to avoid financial complications, which all Governments will not be in a condition to face. It would be difficult to ascertain in advance the incidence of financial charges, thus weighing on the budgets of the several States, even if it were possible to identify in advance the products passing through the pool.

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

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

16. The Charpentier plan would fix the "European price" for trade exchanges not only with non-European countries, but also between European ones. It lays down that the High Authority will suppress national tariffs and fix "compensating taxes" against the differences in production costs. It does not provide, as does the Manholt plan, for duties on or subsidies to imports should the national price be either higher or lower than the European one. But the prospective dangers arising
from a fixed European price differing from the world price are no less serious. The European producer could no doubt represent an insurance for the producers; but it might not offer the necessary incentive to the adoption of all possible improvements in farming methods. It spells isolation, crystallisation of the European situation; whereas the rebalancing of the several economies of the European countries can only be secured by encouraging trade with the rest of the world.

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

Nor can the example of the coal and steel pool be added. The Monnet-Schuman plan provides for an Authority which may make loans to the concerns (art. 63); fix production quotas should the demand be insufficient (art. 56); prevent unfair competition (art. 60); fix, under certain conditions, maximum and minimum prices (art. 61); and, even set up clearings between the concerns (art. 53/62), taking into account differences in production costs. But it would be difficult to confine such powers on a High Authority in the case of agriculture. Some powers — such as that for setting up subsidies between the several concerns — would be impossible in practice, in view of their very great number and the widely different conditions under which they work.

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

Many difficulties stand in the way of accepting the proposal for setting up a High Authority with powers to define — even if only at a later stage of the work — the “systems of production” for each country. Such systems are the result of slow development, of special legislation, of investments already planned and in operation. Such, for instance, in Italy, are the works of land reclamation, irrigation, the Casa del Mezzogiorno (Fund for the South) and mountain-land improvements. It is inconceivable that a foreign Authority should interfere in the policies of the several countries, presumably without having even a thorough knowledge of their respective situations.

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

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

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

The Italian Government, by a series of measures (Ministerial Decree of 27 December, relating to the liberalisation of 90% of the imports at their 1948 value; 15th July 1950, relating to the next stage of the liberalisation of 60%; 13th August 1951, relating to the stage of the 75% liberalisation) had freed Italian trade from quantitative limitations, liberalising respectively, 60%, 73%, and lastly 74.3% of her imports. These percentages — it should be noted — refer to the value in 1948 of the imports of agricultural products and foodstuffs from the participating countries. Italy had thus met in full the requirements laid down by the O.E.E.C., making the maximum contribution to the realisation of a single European market for staple foodstuffs.

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

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

In the memorandum accompanying this proposal for enlarging the liberalisation measures, the Italian Government stressed the effort it had made, both in the liberalisation of trade as a whole (in which notable levels had been attained in each of the three groups of products considered: 74.3% for agricultural products, 83.6% for raw materials, 69.2% for finished products, in all 77%?) and in the liberalisation of the items included in the first common list. The Memorandum went on to say that the Italian Government had not had recourse to the clause providing for exceptions for any of the items contained in the common list, although other countries had availed themselves of those clauses for a certain number of items, of which some were of special interest for Italian exports. Nor were the reasons adduced by those countries always convincing. Therefore the Italian Government in the aforesaid memorandum urged the Coordinating Group to do all in its power to request the countries to liberalise, as soon as possible, the products for which they had asked that the exceptions be applied.

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


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

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

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

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

Another essential task for the proposed European Agricultural Community is that the Member Countries should apply, on an ever larger scale, all the devices needed for improving yields and reducing costs. In this connec-
tion, in the case of Italy, the labor problem has to be considered. In Italy production costs are raised by the excessive pressure of labor on land resources. This makes it necessary that the countries where there is, instead, a shortage of labor should relieve this pressure, which is so heavy an item in the cost of production.

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

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

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

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

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

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

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

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

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

And here is the danger. The mechanism may become permanent as a result of the pressure exercised within each country by organisations of farmers and workers. Nor is this danger always avoided by the pledge, given by each country to the others, that the mechanism will be repealed within a given period.

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

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

I. — The country suffering from inflation sees:

(a) its export trade continue, until the price rise of goods and services has affected its exports. When this point is reached, exports remain stationary and then decline, unless the economic structure of the country has adequate elasticity. Nevertheless — in the absence of a single rate quoted for the inflated currency of a given market — the legal one and of hindrances placed in the way of exports — there may also, in the country suffering from inflation, an incentive to sell goods against foreign currency, which can now be exchanged for larger amounts of the national currency.

Then the other countries may protect themselves against the attempted invasion of goods and services from the inflation country by demanding compensatory measures, which will take into account the degree of inflation of the latter;

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

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

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

II. — A country carrying out deflation sees:

(a) its export trade diminish, because of the price drop of its goods and services, and imports will probably increase. If so, the balance of payments will improve, and the country may try to take advantage of this situation to reduce its dependence on foreign currency, and to divert trade to other countries.

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

III. — The long and the short of it is that any country that ceases to follow a stable money policy gives rise to conditions that react on the other countries; reactions which may be neutralised by recourse to «compensatory measures». But it is characteristic of such measures, when they are caused by monetary phenomena, that they tend to become permanent instead of transitory, at least so long as the monetary policy of the inflationist or deflationist country does not align itself once
more with those of the greater number of the countries belonging to the pool. Therefore — while admitting that the arrangement of the monetary, tariff, and financial policies of the countries participating in the pool is found to be objectively feasible in the long run — any pledge the pool may give can only be observed, if each country follows a policy which assures the stable pur-
chasing power of its currency. Is this an un-
derstanding that the participating countries are willing to make?

34. Mandate of the Group of Experts. Collection of documents and list of the Surplus: the European Agricultural Community will take into consideration.

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

(a) study all the products of the experts may suggest, on the strength of suggestions sent them from the several countries;
(b) submit suggestions about a list of pro-
ducts to be submitted to the ad hoc Confer-
ence and state the principles by which the Group has been guided in making the selec-
tion;
(c) bring together all the documentation, either in the possession of international organi-
sations or supplied by the Governments, so as to show the status of the general conditions and of the economic and social problems affecting the production, consumption, the organisation of the markets and foreign trade of each country;
(d) collect studies on the institutional prob-
lems to which a European organisation of
agricultural markets might give rise.

I. — The first task to be undertaken by the group was that of drawing up the list of products it would wish to consider. If it be true that the new Agricultural Commu-

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

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

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

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

(a) of what products there is a surplus in some countries and not in others;
(b) of what products there is a surplus in all countries;
(c) of what products there is a deficit in all countries;
(d) in the case of the first group, the im-
porting countries should pledge themselves to take a quota of the surplus from the several ex-
porting countries. This quota — we have said — would vary, from year to year, above an agreed minimum. And this device would be the means for assuring an outlet, if not for the whole surplus of the «pool» for most of it, in the first year in which the pool would operate. In the course of time produc-
tion also could be readjusted to the largest probable demand, in an effort at European cooperation, and revised especially in some countries which produce under forced condi-
tions, or conditions of little economic expediency.

The essential function of the pool would thus be that of accommodating the presence of surpluses, and of distributing them to the full point possible between the markets of the Member Countries.

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

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

A similar application of the same sort might be adopted in the case of the third group of pro-
ducts — those for which there is a deficit in all countries — the pool might leave the mem-
ber countries free to procure, each on its own account, the supplies needed; or it might get the countries to agree on the partial or total purchase of the imports required from certain given markets, should this method allow of forming a more solid front, so as to obtain better conditions of sale.

25. Possible functions of a European Agri-
cultural Community.

To sum up, should a European Agricultural Community be formed, it might set itself some targets, such as that of:
(a) a definite action in favor of the liber-
isation and integration of trade between the Member Countries;
(b) a clear and accurate knowledge of the demand for the products dealt with by the pool in the countries taking part in it, of their production, the organisation of their dom-
estic markets and the regulation of their for-
eign trade. This knowledge would be a start-
ing point, as it would show what are the many obstacles in each of the Member Coun-
tries which in practice hinder their trade;
(c) the inclusion of the largest possible number of products to be taken up, if necessary successively, in the course of time, so as to give each country the opportunity to offset possible losses that might arise in one branch by the advantages it would secure in others;
(d) promoting technical progress by spreading the application of improved methods of farming among the small farms, so as to lower costs, above all in the countries where they are highest, and by persevering tenaciously in the more scientific use of all the factors of labour forces;
(e) paying serious attention, in this con-
nection, to the problem of surplus labour forces in some countries, while in others they are insufficient to meet needs;
(f) providing measures for ascertaining the exportable surplus by means of inquiry and defining the engagements entered into by the Member countries to accept priority quotas of these available European exports;
(g) taking measures for regulating the distribution of any products of which there
may be a deficit in the European Agricultural Community area;

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

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

The attainment of these targets could be facilitated by the work of a financing body, which could assist trade between countries with still unconvertible currencies and promote investments in some of the Member Countries offering special opportunities for development: the object being to raise the living standards of the populations, and gradually lead some countries to modify their trends of productive activity, directing them along better suited lines. This action, however, should be undertaken only when the experience acquired of the advantageous effects of the commercial and technical policies followed by the European Agricultural Community will have convinced all the participating countries of the advisability of revising some of the crop policies so far followed.

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

The Sliding Scale System in Italy

by

RUGGERO SPESO

In this study we shall examine, first of all, the features and development of the sliding scale system in Italy (Sec. I); we shall then consider the more characteristic effects produced by the introduction of this system on the real income of labour and on the monetary situation (Sec. II).

To understand the working of the sliding scale it must be borne in mind that the pay of the workers in Italy is divided in two parts, subject to different regulations. The first part, the «basic wage» («salario base»), is fixed by trade agreements and varies in function of locality, and with the sex, age, and qualifications of the workers.

The second part, the «contingency quota» («indennità di contingenza»), was originally fixed on a highly uniform basis, the only differences being those of locality, sex and age; but in the course of time (as will be pointed out in par. 2) important additional discriminations have been made according to qualification and specialisation of the work. Wage variations arising from the sliding scale are related to the pay of the worker as a whole; but they affect, and are incorporated in, the «contingency quota» only (1).

The «contingency quota» arose when the several allowances introduced during the war years as additions to wages, were unified; it thus acquired a definitely provisional character. At the time of the agreements for the introduction of the sliding scale this provisional character was stressed by drawing a distinction between the «contingency» and the «basic wage». Negotiations are now going on for the unification of the two wage-sections thus eliminating the previous — and now unjustified — temporary nature of the «contingency quota».

Table I shows the variations of the incidence of the «contingency» on the contractual wage; it shows the total contractual wage of a skilled worker in the engineering trades in Milan, the monthly «contingency quota» he receives, and its percentage ratio to total wage.

<table>
<thead>
<tr>
<th>Period</th>
<th>Total monthly contractual wage</th>
<th>Monthly contingency quota</th>
<th>% ratio of the contingency to the total wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1946</td>
<td>7982</td>
<td>7408</td>
<td>94.5</td>
</tr>
<tr>
<td>1947</td>
<td>20.28</td>
<td>19.39</td>
<td>95.5</td>
</tr>
<tr>
<td>1948</td>
<td>23.47</td>
<td>23.29</td>
<td>99.5</td>
</tr>
<tr>
<td>1949</td>
<td>27.69</td>
<td>27.29</td>
<td>98.5</td>
</tr>
<tr>
<td>1950</td>
<td>28.38</td>
<td>27.98</td>
<td>98.5</td>
</tr>
<tr>
<td>1951</td>
<td>31.98</td>
<td>31.58</td>
<td>98.5</td>
</tr>
<tr>
<td>1952</td>
<td>34.18</td>
<td>33.78</td>
<td>98.5</td>
</tr>
</tbody>
</table>

(1) The distribution of the total pay between the «basic wage» and the «contingency quota» has special importance for pensions and dismissal allowances, so far as these are calculated on the basis of the «basic wage» only. As a result, however, income is also taken of the «contingency quota» for many groups of workers, e.g. bank-employees, various branches of industry, etc.

The high ratio of the «contingency» as from 1947 onwards should be noted. In view of the relative uniformity of the «contingency» this fact has accentuated that narrowing of wage-differentials of which we shall speak further on.