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Abstract

After the Second World War, with food supplies being badly insufficient, the “Marshall Plan” as well as a policy of high producer prices provided incentives to reconstruct the agricultural production potential in Western Europe. Soon production surpluses began to emerge, and despite the high price levels farm incomes did not rise in proportion to production and productivity. Already in 1950 a debate about the organization of common agricultural markets in Europe began to develop.

This paper describes the development of the Common Agricultural Policy, starting from these discussions until the implementation of the first market organizations in the early 1960s. The Treaty of Rome is seen as the formal trigger for creating a “Common Agricultural Policy” among the six founding members. Furthermore, it tries to identify impacts of the short tem oriented fixes for actual problems in this period on key deficiencies of the CAP in the long run. Here the indistinctness with respect to important long term agricultural issues of the Treaty establishing the European Economic Community (EEC) are a possible starting point.

These shortcomings could not be fixed in the subsequent Stresa Conference, which tried to work out the basic outline of the CAP. The paper basically identifies two interrelated deficiencies of the early CAP as being most influential for the often disputed long term evolvement of this policy area: (i) the inability to take a decision on the “correct” support level, and (ii) the lack of a realistic structural policy objective.

More or less all attempts to fix these weaknesses of the CAP in a balanced way failed. Short term-oriented and often cost-inefficient solutions dominated the subsequent development of the CAP. Examples supporting this finding are, among others, the decisions with respect to the harmonization of the common price level in the following years, the biased management of the exchange rate differences through the so called “Agrimonetary System”, or the way of introducing direct payments with and after the MacSharry Reform of 1992.

Key words: Treaties of Rome, Common Agricultural Policy, post-war period, European Community,

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1 Introduction

After WWII European countries were looking for ways to overcome historic tensions between them through forms of economic cooperation. Following the creation of the European Coal and Steel Community (ECSC) in 1952, representing a new type of common market agreement with strong supranational features, similar considerations with respect to agriculture took place. Given the economic importance of farming at this time, a unified Europe without a unified agricultural market appeared to be impossible. Particularly countries with a structural production surplus, like France or the Netherlands, had a vital interest in a “common” market as an outlet for their export supply.

The Treaty of Rome can be seen as the formal trigger for the creation of a “Common Agricultural Policy” among ECSC members. The Treaty’s guidance with respect to agriculture was balanced, yet not very precise. Hence, it left a copious range to develop different forms of a common agricultural policy. In creating the first outline of the CAP policymakers tended to transfer their national protective, producer oriented solutions to the community level as a “temporary” solution for actual problems.

This paper describes the economic and political background of the early 1950s (section II), and its influence on the formulation of Articles 38 to 47 in the Treaty (Section III). Section IV then sketches selected steps of developing the CAP until the mid-60s. Finally, some conclusions with respect to the influence of the Treaty for the long term development of the CAP are drawn (Section V).

2 Agriculture in the post-war period

2.1 Food demand and production capacities in the 1950s

Right after the Second World War food supplies were widely insufficient. Facing limited import volumes, many countries – particularly in Continental Europe - tried hard to recover their destroyed agricultural production potential. From 1948 on, external support provided under the so called “Marshall Plan” was an important factor in this respect by mitigating the lack of production capital (machinery, buildings, livestock). One of the key internal incentives to achieve self-sufficiency was price guarantees for producers at levels above the international averages. This improved the cash flow of farms and put them in a position to invest and thus to boost production capacities. Already in the crop year1949/50 production exceeded for the first time the pre-war level in UK, Germany followed only one year later (Tracy, 1989). As food consumption only increased in line with population growth, within less than one decade production surpluses appeared as a new problem for important commodities like dairy, pigmeat, beef, or wheat.

During this decade, the economic profile of the agricultural sector began to change. While in the past the development of the farm sector was characterized by moderate productivity improvements within widely steady structures, the rapid technological progress after World War II changed the picture fundamentally (Hofreither, 1999b). A period of unprecedented productivity growth in agriculture began. Per capita output in agriculture rose significantly and often exceeded the increase in other sectors. The following Table 1 provides a picture of this situation.

Table 1: Postwar Changes in Output and Income in Agriculture

(Average annual percent change, per capita, 1952-54/1955-59)

Country	Gross output	National Income
Austria	4.5	6.8
Belgium	7.8	2.2
Denmark	7.0	2.9
Finland	3.6	3.2
France	4.3	3.7
Germany (Fed. Republic)	8.5	7.4
Ireland	2.9	1.6
Italy	4.8	6.3
Netherlands	6.1	4.0
Norway	5.4	2.0
Sweden	4.2	3.1
United Kingdom	5.4	2.3
United States (1950-59)	7.3	1.2

Source: FAO (1963, 119, own selection)

However, despite high commodity prices farm incomes were not able to rise in proportion to production and productivity. The main causes for that phenomenon are, firstly, that food consumption rises less quickly than overall consumption and income ("Engel's law"), and secondly, that a considerable share of the economic benefits of high product prices dissipates out to upstream and downstream sectors (Hofreither et al, 1996).

Following a traditional pattern, such a situation provokes claims for public intervention to solve the underlying problem. However, as the key problem had changed from insufficient supplies to emerging surpluses, the initial recipe – high producer prices to stimulate production – could barely remain adequate. Yet, there were pronounced differences in the national approaches to overcome these problems, which may be traced back to the national state of production capacities in agriculture after WWII, but also to differing attitudes towards market mechanisms[1]. In this

[1] For a detailed description of the situation in various European countries please refer to Tracy (1989, 221ff.)

respect the UK or Denmark e.g. followed quite a liberal approach, while other countries, among them Western Germany, tended to build a protective wall in order to support farmers.

Table 2: Main agricultural indicators in selected European countries

	Agriculture's share of GDP, percent		Agriculture's share of total employment, percent		Agriculture's share of total trade, percent (average 1955-59)		Net foreign trade in agricultural products, in 1960 US$ (average 1955-59)
	1955	**1960**	**1955**	**1960**	**Export**	**Import**	
Belgium	7.9	7.3	9.3	7.6	5.4	17.2	-386.4
Lux.	9.3	7.6	19.4	16.4			
Holland	11.4	10.5	13.2	11.5	33.6	19.6	+310
Germany	8.0	6.0	18.5	14.0	2.8	32.9	-2,124.6
France	11.4	9.7	26.9	22.4	14.9	29.2	-836.0
Italy	20.7	15.1	40.0	32.8	22.6	20.6	-114.2
EEC (6)	11.5	9.0	21.2	17.5	15.9	23.9	
UK	4.8	4.0	4.6	4.3	6.5	41.8	-4,013.6
Denmark	18.4	14.4	24.9	21.2	65.7	20.3	+502.2

Source: Zobbe (2001).

Between 1955 and 1960 in all countries of Western Europe agriculture's share in national incomes began to fall, the same holds for overall employment (see Table 2). The continuing rise in farm labour productivity opened up the opportunity to move labour from agriculture to other economic sectors, and over the following decades a huge proportion of farm labour actually left the sector. Yet, agricultural policy mostly tried to slow down this process in order to mitigate the presumed risk of "rural exodus". So in most countries the available potential of labour transfer from agriculture to other sectors was not fully exploited. As a consequence, European agriculture began to develop a fundamental structural problem: more people than necessary were engaged to satisfy a moderately growing food demand.

Certainly, with hindsight the situation of the 1950s is easier to asses than it was for the people in this very decade. Still impressed by the sufferings during the recent wars, preferences were fixed on securing adequate food supplies. This position was fortified by the impending "Cold War" between East and West and the escalation of the conflict in Korea (1950-53). Understandably, efficiency considerations did not play the leading role in designing domestic agricultural policy at this time.

2.2 Debates about agricultural policy in the 1950s

The general approach - achieving food security through raising domestic production - led to highly protectionist agricultural policies in many Western European countries. This development was questioned by independent researchers and institutions as being inefficient and flawed. They pointed out that food security could not be achieved by domestic production, as in the case of a military conflict production areas would likely be contaminated. The critics also stressed the fact that due to these protectionist arrangements world trade in agricultural products would grow slower, both in volume and value. Also the defective economic logic of the agricultural policy argument that the domestic production of goods at higher cost than imported commodities of the same kind would allow to save foreign exchange, was criticised. Functioning trade relations would be more promising to accomplish the stated objectives.

The protectionist agricultural policy setting was also in sharp contradiction to already existing international trade rules, mainly with respect to the GATT 1947. In 1958 the GATT commissioned a panel of economists in order to analyze the tensions between national agricultural policies and the existing rules for "orderly" world trade. This "Haberler Report" criticised the use of price support, particularly in pointing out that this form of supporting agriculture would

- not be able to solve the farm income problem,
- create massive disparities between large and small farms as well as
- between farms in prospering regions and disadvantaged areas, and
- put the main burden of farm support on consumers, through its regressive effect on income distribution.

Similar arguments were brought forward in various reports published at this time by OEEC, FAO, and others. According to these studies, raising productivity of agriculture and moving a substantial share of farm labour out of the sector appeared to be the measures of first choice to secure the long term economic viability of this sector.

Yet, increasingly well organized interest groups served as a powerful counterweight to the emerging public discussion about the disadvantages of price support. All attempts to objectively debate the possible drawbacks of relying on price support to solve the income problem remained without result. Also suggestions to raise the efficiency and competitiveness of agriculture through improving farm structures (e.g. by eliminating small, unprofitable farms) spurred stiff resistance from most - but not all - farm interest groups. The influence of interest groups on agricultural policy decisions further increased through attaining an official consultative status to governments. Examples are the NFU (National Farmers Union) in the UK, the Fédération Nationale des Syndicats des Exploitants Agricoles (FNSEA) in France, or the "Deutscher Bauernverband" (DBV) in Germany. As mainly producer interests were organized effectively, agricultural policy more and more tended to develop a distinct bias towards the supply side[2].

European countries also assessed the requirements and prospects of their national farm sector in the long run. France e.g. was realizing that its agricultural production potential, if fully exploited in the future, would definitely exceed domestic demands. Thus, interest in forms of preferential access to the markets of other European countries began to emerge (Krebs, 1972). Italy pursued similar ideas with respect to exporting fruit and vegetable to the rest of Europe. On the contrary, West Germany tended more towards an agricultural policy mainly relying on managed commodity prices, which should cover the production costs of the majority of German farms, including the inefficient ones. Starting from differing interests, the idea of a common market for agricultural products gradually began to thrive in Europe.

2.3 The "Green Pool" activities

Related to the "Black Pool", which lead to the creation of the European Coal and Steel Community (ECSC) between Belgium, France, Germany, Italy, Luxembourg, and the Netherlands in 1952, similar considerations with respect to agriculture emerged in the form of the so called "Green Pool" discussion.

Already in 1950 a debate about the organization of common agricultural markets in Europe began to develop. The Consultative Assembly of the Council of Europe set up a "Special Committee" for this purpose. France pushed the 'Charpentier Plan' which proposed the creation of a *High Authority for Agriculture* with substantial supranational power. This authority would have been able (Tracy, 1989, 246)

(i) to control production within member countries,

(ii) to fix "European" prices in relation to costs of production, and even

(iii) to eliminate trade restrictions between participating countries.

The mid-term objective was to harmonize production costs in the different member countries, a prerequisite for a common price level. Transitional differences between national and European prices were to be levelled by "compensatory taxes".

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2 Sicco Mansholt realized the need for a consumer policy already in the early 1960s, when in 1961 he invited consumer organizations to discuss particular features of the CAP, which appeared too sector oriented and corporatist, transferring income to farmers at a disproportionate cost for society (Tarditi, 1998, 4f).

The strong supranational dimension of the French proposal spurred opposition, primarily from the UK ("Eccles Plan"), but also from Denmark. In 1951 France further accelerated its line of reasoning in submitting a new proposal to all Western European countries ("Pflimlin Plan"), which aimed at setting up a European Agricultural Community. After intense and quite controversial discussion on these topics the Special Committee on Agriculture adopted the 'Charpentier Plan' and in late 1951 also the Consultative Assembly expressed its will to draft a treaty along the lines of this plan.

A proposal of the Dutch Minister of Agriculture, Sicco Mansholt, aimed at achieving a high level of agricultural productivity through specialisation. It also proposed to set acceptable upper limits to the degree of protection, which would be gradually reduced until a common European price level was achieved. The debates also addressed the question whether, respectively to what extent, trade should be organized in a way giving preference to other member's exports. From today's point of view the state of public information about agricultural problems was surprisingly up to date. Yet, with powerful interest groups defending the status quo on the opposite side, the progress of the "Green Pool" discussion remained modest. In short, the Green Pool initiative was a useful step in gradually moving towards an integrated Europe, but was not successful with respect to a formal outcome[3].

2.4 Conference of Messina and Spaak Report

An important step towards the Treaty of Rome was the conference of Messina in June 1955. In this Conference the six ECSC member countries agreed to work towards a "united Europe" including a common market (Tracy, 1994, 359). A committee chaired by Paul Henry Spaak was commissioned to prepare a report with detailed suggestions. This report, which was delivered in spring 1956, recommended the creation of a common market for all goods and services, based on a customs union with a common external tariff. With respect to agriculture the basic intention of the Spaak Report was mainly to sketch out basic objectives and instruments of such a new policy, as simply continuing national policies was unthinkable.

The report perceived enormous prospects for agriculture due to its specialization potential in combination with open trade flows between countries. Although the Spaak Report addressed mainly general issues - market stabilization and food safety, adequate income level for produc-

[3] As a consequence of the breakdown of the Green Pool negotiations, in 1955 OEEC initiated the Ministerial Committee for Agriculture and Food, yet with quite limited functions and abilities. Its main contribution was a series of scientifically sound economic reports about the basic problems of agricultural policies in developed countries at this time (e.g. OEEC, 1956, 1957, 1958).

tive farms, gradual adjustment of farm structures - it also raised a couple of key questions, which mostly are still relevant up to now (Fennell, 1997):

- What is the optimal self sufficiency rate in taking into account the trade off between domestic production and the degree of specialization?
- How can the dominating family farm be reconciled with the required high rates of technical and organizational progress?
- How can the required migration of farm labour be balanced with sufficient working opportunities in non-agricultural sectors?
- For which products and at which degree price stabilization is required at all?

Although it left no doubt that agriculture had to be a part of a common market in Europe, the *Spaak Committee* considered this policy domain as a complicated issue and thus was quite cautious with respect to answering these questions. The "Spaak Report" was approved on 29 May 1956 by the foreign ministers of the Six ECSC member states and served as the groundwork for signing the "Treaties of Rome", which set up the European Economic Community (EEC) as well as the European Atom Energy Community (EURATOM), about two years later[4].

3 European Agriculture and the Treaty

3.1 Treaty articles related to a "common agricultural policy"

In the official text of the "Treaty establishing the European Economic Community" agriculture is covered in "Part Three. Community Policies" under "TITLE II – Agriculture" (Articles 38 to 47) [5]. Probably the most often cited passage of the Treaty related to agriculture is Article 39, which contains the objectives of agricultural policy. In its original appearance this article says the following:

[4] The term „Treaties of Rome" normally also includes a Convention on certain institutions common to the EEC, the EAEC and the European Coal and Steel Community (ECSC).

[5] In the consolidated version of the "Treaty establishing the European Community" of 2002 the numbering of these articles has changed to 32 to 38, original articles 44 to 47 have been deleted.

ARTICLE 39

1. The objectives of the common agricultural policy shall be:

(a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;

(b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;

(c) to stabilise markets;

(d) to assure the availability of supplies;

(e) to ensure that supplies reach consumers at reasonable prices.

Figure 1: Facsimile of page 41 of the EEC Treaty (lower part).

This often quoted Article 39 was not very specific in its wording, logically contradictory and thus was open to differing interpretations. By linking together the call for increasing agricultural productivity with “thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture” and “at reasonable prices”, Tracy concludes that such a wording suggests that structural measures are to be preferred (Tracy, 1989, 251). Also the remaining wording of Article 39 appears cautious. It requires that account shall be taken of “the particular nature of agricultural activity”, the “need to effect the appropriate adjustments by degrees”, and “the fact that agriculture constitutes a sector closely linked with the economy as a whole” (EEC Treaty, p. 42).

Article 40.2 sketches the possible forms of a “common market organization”. With respect to the measures to achieve the objectives of Article 39, regulation of prices, aids for the production and marketing of the various products, storage and carry-over mechanisms, and “common machinery for stabilising exports and imports” are explicitly mentioned (Article 40.3). There is also a request to “exclude any discrimination between producers and consumers within the Community”. Slightly more precise were the provisions for the transitional period: here import prices should give the required protection against foreign markets. For certain products long-term contracts were intended, and furthermore ‘distortions of competitions’ should be offset by countervailing charges (Tracy, 1989, 252).

Article 42 facilitated the special treatment of agriculture by stating that, until further notice, this sector is exempted from most „Rules on Competition“ relating to cartels (Art 85-90), from dumping rules (Art 91) and from the incompatibility of aids granted by states (Art. 92-94). Article 43 refers to the procedures by which the CAP was to be established. The first requirement for the Commission, after the Treaty coming into force, was to convene a Conference where the agricultural policies of the six member states were to be compared. On this basis, “within two years of the entry into force of this Treaty”, the Commission was obliged to submit proposals for “working out and implementing the common agricultural policy” (Article 43.2). This paragraph also contains some clarifications about majority rules, demanding the Council to act “unanimously during the first two stages and by qualified majority thereafter”.

On the whole, with respect to important issues the Treaty resembled the ambiguities of the Spaak report. This e.g. holds with respect to the nature of organizing the agricultural markets, and - probably more troubling for the future development of the CAP - the level of support to agriculture. The only rather concrete prescriptions refer the introduction of minimum prices (Article 44). The Article also contains a clear deadline of three years “of the entry into force of this treaty”, within which the Council has to take decisions unanimously. After the transitional period, the Council shall “by a majority of nine votes, […] determine the system to be applied within the framework of the common agricultural policy” (Art 44.6).

Practically, the Commission was in charge to develop a first framework for a Common Agricultural Policy. Sicco Mansholt, at this time the responsible Commissioner, governed these activities in cooperation with national governments and farm organizations. The conference of Stresa in 1958, which was a response to the claim of Article 43.1, was an important step towards this objective.

3.2 Conference of Stresa 1958

The conference of Stresa 1958 was an attempt to concretize the agricultural content of the Treaty. Special working groups dealt with (a) the actual situation and problems of agriculture as well as the actual features of agricultural policy, (b) the possible short term repercussions from the (application of) Treaties of Rome towards national agriculture as well as (c) the long term objectives of agricultural policy (Tracy, 1994, 358).

Remarkably, the first president of the European Commission, Walter Hallstein, pointed to the possible problems of the common agricultural policy due to the lack of a common financial and monetary policy. He also criticized the vagueness of the Treaties with respect to the necessary monetary, fiscal and economic coordination of the community. In his keynote address Sicco Mansholt stressed that agriculture, despite being a common policy, should not be a “special case” requiring exemptions. He also argued against mixing ‘productivity increase’ and ‘production increase’ and warned that isolating producers and consumers from the reality of international markets would have negative effects. Yet he accepted the political necessity to take the existing agricultural policy of the six member states as a starting point. Mansholt considered the new agricultural policy as being mainly focused on two connected problem areas, namely the adaptation of agricultural structures including processing and marketing, and the creation of a common market.

Already this first conference made clear that the Common Agricultural policy would have a hard time to escape the influence of national policy interests and that substantial disagreement between national positions exists. France considered the Treaty as a system of mutual preference, while e.g. the Netherlands took a more liberal stance. Other countries asked for a thorough assessment of trends in production in order to come to grips with emerging surpluses. In the end, there was no clear common position with respect to the problem of surpluses, indirectly indicating believes that this problem would automatically disappear. Similar differences existed also with respect to the “optimal” degree of self sufficiency or the calculation basis for common price levels.

This lack of consensus across national positions also showed up in the final text, which vaguely considered agriculture as an integral part of the overall economy and as an essential factor in the social dimension. Despite these differences with respect to the optimal short term development steps, the long term objectives of the CAP were less controversial: it was clear that the existing national differences in production cost levels had to be equalized, that production had to be reoriented according to market principles, and that productivity had to be further increased. In the long run, remuneration of production factors in agriculture should align to the level of other economic sectors. This position was taken with a clear view that this strategy, which basically aimed at a competitive setting, would squeeze out marginal farms. Price policy was considered a key instrument to realize these goals.

The vision of an entirely new agricultural policy with benefits for Europe as a whole initiated an ‘atmosphere of departure’, which included the willingness for fundamental changes in the long run. The actual protectionist measures taken were considered as some unavoidable short term fix for the transition period. However, the development of the CAP in the following years and decades did not manage to escape this short term provisional orientation. On the contrary, it moved more and more away from these early ideals.

4 The Formation of the Common Agricultural Policy

4.1 Policy debates and decisions in the early 1960s

The Economic and Social Committee tried to balance the interests of the farming community with those of industry, workers and consumers, because agricultural negotiators and interest groups hardly took notice of the implications of their decisions for non-agricultural parts of society. More and more conflicting areas between agriculture and other economic interests became known to the public. So, e.g. the agreement with respect to the gradual dismantling of tariffs on intra-EEC trade as well as creating an external tariff over the coming years was publicly disputed: Germany rejected the idea of “accelerating” this process for farm products in line with non-agricultural products. This induced criticism of other countries opposing the idea of excluding agriculture from this process.

In November 1960 a consensus regarding common principles of a CAP across countries began to emerge, which first and foremost included a system of import levies, deemed as a means to smooth the transition to a full fledged common market without internal trade barriers. At the same time, the still existing levies on intra-EEC trade were to be reduced (Baade Fendt, 1971, 45). While it was not a question that during the transition period the price levels of the member countries should be harmonized, the unsolved issue was at what level. The following Table 3 provides sketchy information about the differences between national price levels at this time.

Table 3: Wheat price differences in Europe (1958/59)

COUNTRY	PRICE LEVEL
France	DM 290 *)
Netherlands	DM 320
Belgium	DM 390
German, Italy	DM 420
Luxembourg	DM 470
World market	DM 270**)

Remarks: *) Value after two de-valuations of the french franc in 1957 and 1958.
**) Approximation based on personal calculations according to different sources.
Source: Tracy, 1994, 361.

In 1960 the Commission proposed to make a first step of adjustment with the prices of cereals and sugar in 1961/62. Given the actual price levels, this would have implied reductions in Germany, Luxembourg, and Italy, but price increases in France and the Netherlands. In face of this threat the German *Bauernverband* (DBV) strictly opposed any reduction of domestic farm prices due to its negative income effects. Instead, the DBV suggested to prepare for – not in detail specified – future price hikes (e.g. in France) through increasing all EEC farm prices to the level of the high price member states. This would also be in line with the basic principle of the CAP, which would require "to protect Community farmers against low world market prices ("Community Preference"). Belgium (*Boerenbond*) was clearly in favour of this proposal, and France generally supported any position which aimed to provide economic and social "parity" to farmers. Finally, after "stopping the clock" until January 4, an agreement was reached, which allowed to enter stage two of the transitional period.

4.2 Elements of the common agricultural market organization

The implementation of this "temporary" system began with 14 January 1962, when a package determining the final state of support and thus the definitive common market organization was adopted. This decision came into force with 30 July 1962 for cereals and cereals-based products, which later served as the role model for other commodities (Baade, Fendt, 1971, 57f). This first step of creating and implementing the "Common Agricultural Policy" caused an optimistic atmosphere among the relevant actors (Tracy, 1989, 258) and the successful continuation of this process appeared just a matter of time.

For most agricultural products a system with market intervention plus import protection was introduced (Henning, Glauben, 2000, 8ff.). Isolating the domestic market against foreign competition was normally achieved by either fixed ("bound") or variable levies. To get rid of production surpluses, export refunds covering the price difference between the domestic and the world market were provided. In the upcoming years similar systems were applied to other product groups with varying combinations out of this basic instrument set[6]. After introduction, the system was also applied to intra-EEC trade flows, but was to be eliminated in the future, when the intended price harmonization within the common market would have become reality. In general, contrary to the intentions of the Commission, the degree of protectionism of the emerging agricultural system was considerable. The key reason for that was the reluctance of some countries to proceed with price harmonization at the initially intended level mentioned above.

Another mechanism which worked in the direction of making the CAP more protectionist and costly was initiated by "financial solidarity". This principle simply made sure that the financial burden caused by agricultural measures was distributed across all member states. The important point in this respect is that there was hardly any direct link between cause and effect with respect to the single member state. As a general rule member states knew quite well what, on the one

[6] While e.g. dairy and beef got a very comprehensive set of instruments to support and protect, other products (e.g. pigmeat, poultry, eggs) did not receive support, but only some form of "community preference" with respect to foreign markets. For a detailed overview compare Baade, Fendt, 1971, p. 57ff.

hand, the benefits of a measure for the individual country would be and, on the other hand, what the resulting increase in the individual contribution to the community budget would be. In cases where the difference between benefits and costs was positive, a strong incentive to argue for inefficient, even welfare decreasing measures occurred (Hofreither, 1999a).

4.3 Hurdles towards a "common market"

While it was not a big problem to agree to a common market mechanism, defining a common price level was a much more delicate issue on the road to a common market. The original wording of the treaty opened a generous political leeway in saying that "any common price policy shall be based on common criteria and uniform methods of calculation." (Art 40.3). One of the key criteria for the determination of a common price level was incomes of people employed in agriculture. The fact that this objective was set without taking into account the structural characteristics of a farm made this requirement quite shallow. Price decisions were mainly made according to political interests, but not economic logic (Baade, Fendt, 1971, 80).

The scheduled step of determining cereals prices for the production year 1963/64 was no easy exercise. To weaken the opposition to price cuts, Commissioner Mansholt presented a remarkable proposal to harmonize cereal prices in one step by 1963/64, including (income) compensation for farmers in Germany, Italy and Luxembourg, which would have experienced price reductions. With facing elections in 1965 the German government was unwilling to agree to any price cuts in agriculture at this time. Hence, the final compromise of 15 Decenber 1964 was strongly biased towards the interests of the high price member states (Germany, Italy): The common price level, coming into force with 1 July 1967 only required price cuts of 10-15% for Germany. Through degressive direct payments - about 1 bill DM between 1968 and 1970 alone in Germany - negative income effects could be avoided. Nevertheless, this outcome was a very important first step towards a full fledged CAP.

In the following period around General de Gaulle's veto against UK's intention to join the Community (Krebs, 1972, 119f; Miller, 2004) hardly any further progress in harmonizing commodity prices was possible. So, the common pricel level within the EC markets could not be completed before 24. July 1966, when the Council agreed to common price levels for milk, beef and veal, sugar, rice, oilseeds, and olive oil (Baade, Fendt, 1971, 77). All common price levels were expressed in "units of account" (UA), defined according to the fine gold parity of the US dollar.

The "empty chair crisis" of 1965 had long lasting consequences for agricultural policy making as well. The solution to this crisis was the so-called "Luxembourg compromise" of January 1966, which allowed member states to de facto veto community decisions, if “very important national interests” were at stake. This was in contrast to Article 43 of the Treaty, which required that, after the transitional stage at the beginning, CAP decisions had to be taken by “qualified majority” (Tracy, 1994, 363). This need for unanimous decisions made political progress very difficult, as consent had to be remunerated by concessions for hesitant countries. This “package strategy” made decision processes awfully time consuming because of the resulting “marathon sessions”. Many proposals were dismissed without any formal voting activities, as it was clear that some member countries would reject a specific “package”. As a result of this “agreement to disagree” the CAP became significantly more complex over the next years. This unfortunate situation remained unchanged until 1983, when the “Stuttgart Declaration” made the first step to return to ‘business as usual’ according to the Treaty regulations, before the Single European Act of 1986 initiated a return to majority decisions[7].

5 The treaty from a long-term perspective

5.1 Political pitfalls of the early years

The creation of a Common Agricultural Policy as one result of the *Treaty of Rome* can be recognized in two ways, which probably are both true at the same time: on the one hand, accomplishing an agreement about a common agricultural market among fully sovereign countries with widely varying natural and structural characteristics as well as political interests is a remarkable achievement. On the other hand, the failure to overcome the initial supremacy of national interests in the subsequent development steps of the CAP has to be seen as a key deficiency with adverse consequences up till now.

In looking at the Treaty as well as the following stages of the CAP formation process, two interrelated issues can be identified as the main causes with respect to key long term problems of this policy area:

1. the inability to take a decision on the “correct” support level,
2. the lack of a common structural policy objective.

In determining the profitability of farms a high support level raises the number of small and hardly profitable farms which remain in operation. This increases average production costs and

[7] Already before the Stuttgart Declaration the decision on the price package of 1982/83, increasing prices by an average of 10,4 %, had been taken by a qualified majority vote due to procedural differences between France and the UK (Tracy, 1989, 306):

hence the politically required prices in order to maintain income levels. With support coming more or less exclusively via high prices, large farms are able to make ‘supernormal’ profits in excess of opportunity cost of labour, land and capital by simply producing the maximum quantity at relatively low average cost. Such a system not only becomes very expensive, also its distributional consequences are highly questionable. On the producer side the benefits are biased towards the largest farms (Schmid et al, 2006), and on the consumer side the poorest groups are burdened most.

Similarly, a sound structural policy takes into account the “optimal” size of farms with respect to commodities and regions. Inefficient farms without an economic long-term perspective should face incentives to quit. Obviously, both support level and farm structure issues are closely related, as a high price level in combination with lacking incentives to migrate out of the sector causes too many small farms to stay in the system and puts political pressure towards maintaining high support levels. Despite these insights, which have been available already in the early 1950s, the political forces to maintain these weaknesses have been quite influential (Engels et al, 1985).

5.2 Development of support levels and production structures

With respect to the inflated level of commodity prices and support already the first plan to converge to a common price level faced stiff resistance from German farm interests (see section IV.3). This attitude was maintained at least until the 1980s, when the Community had become one of the world’s largest net exporters of agricultural commodities. Due to a sharp decline in world agricultural prices budgetary and trade related problems coincided (de Gorter, Meilke, 1989). In February 1988 a complex system of “stabilizers” was introduced: production thresholds (“maximum guaranteed quantities”) together with penalties (“coresponsibility levies”) as well as a set-aside program tried to curb overproduction and thus budgetary costs. Yet, even this attempt to mitigate the negative consequences of the traditional price setting behaviour was piecemeal and insufficient with respect to the actual problem intensity.

Another example for the tendency to inflate price levels is the “agrimonetary system” (Baade, Fendt, 1971, 111ff; Hofreither, 1996). As a response to the monetary instability beginning in 1969 this system provided ‘compensatory amounts’ for intra-community trade in agricultural products, being positive (negative) for farmers with a revaluated (devaluated) currency. After some time, a “switch over”-mechanism was introduced, which allowed farmers in devaluing countries to fully enjoy the currency induced price increases, while at the same time farmers in devaluing countries were compensated for the incurred price cuts in domestic currency. This not only turned the 'common' agricultural market into the most disintegrated one (Engels, et al, 1985, 156f) but also resulted in a pronounced inflation of farm prices and made the system even more expensive (Hofreither, 1996).

The third example of the tendency to "oversupporting" agriculture is delivered by the specific way of introducing direct payments in the 1990s. In the MacSharry reform, the first step to "decouple" price policy from income objectives, the 30% drop in cereals prices was compensated by introducing direct payments, which basically were calculated according to the resulting revenue loss for farmers. Due to due to world market price changes, but also cost reductions following the price cuts European grain farmers were overcompensated between 2 and 5 bill ECU per year between 1993/94 and 1995/96 (Buckwell et al., 1997, p. 30ff).

Similar "weaknesses" of aligning the CAP according to initially agreed principles are to be observed with respect to structural policy. The first attempt to solve this problem was Sicco Mansholt's proposal of December 1968 (European Commission, 1968) to realize a competitive agricultural structure. This so-called "Mansholt Plan" aimed at supporting 5 mio people to leave agriculture in the 1970s by early retirement schemes or retraining and to establish "modern production units" via selective investment programs (Baade, Fendt, 1971, 129ff; Krebs, 1972, 72f; Tracy, 1989, 267). The resulting cut in production costs would have opened the opportunity to bring commodity prices closer to market conditions. Yet, the 'Mansholt Plan' was buried in a wave of violent farm protests. When certain guidelines for a "socio-structural' policy were finally agreed in May 1971 ("Mini-Mansholt-Plan"), they were far away from the provoking intentions of Sicco Mansholt (Baade, Fendt, 1971, 137ff). So the first small step of a structural policy has to be dated to April 1975 with the Council Directive on 'mountain and hill farming and farming in certain less-favoured areas' (75/268/EEC), which however did not tackle the basic structural problem of European agriculture. This more or less holds for the subsequent attempts to implement a structural policy as well.

6 Conclusion and outlook

In general, establishing a Common Agricultural Market across highly divergent countries, just ten years after WWII, is a remarkable achievement which contributed significantly to an integrated Europe. Despite the fact that the wording of the agriculture related Articles remained quite general, the EEC Treaty was an important step in this process. The national interests of member states, which understandably have materialised within the early CAP framework, had long lasting implications for agriculture and agricultural policy in Europe and are still a dominant factor for political decisions in this policy domain.

Many inefficiencies and particularly the cost of the CAP during the last 50 years would have been less troubling if a truly ”common” approach had been chosen at the time of the Treaty. Yet, the question whether the CAP is better or worse than the sum of national agricultural policies is not easy to answer. Without the CAP some countries would have had to tackle market and budget imbalances earlier and it would not have been so easy to reject any responsibility for undesirable outcome in face of consumers and taxpayers. This recommends a cautious “no” as an answer to the above question.

Yet, it remains an open issue whether it is really the content of the first setting of the CAP which has to be seen as the main culprit for flawed subsequent decisions. It may well be the basic attitude of policymakers which is to blame. In the early years, the common interest was the honourable objective for the long run, while in the short run national interests had to be secured, even at the expense of other member states. This kind of behaviour mainly follows the conduct of farm policy in the interwar period and appears to be prevalent until today. The bias towards more short term and producer oriented solutions is the very reason for suboptimal policy decisions. Improvements with respect to a genuine European policymaking can only be expected, when supranational visions replace national interests. This, however, will not be the case within the foreseeable future.

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