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Italian agriculture in the European and global context

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The debate initiated in 1798 with Thomas Malthus's theory concerning the ability of agriculture to sustain the population lasted for more than a century. From the middle of the 14^{th} century to the middle of the 18^{th} the annual growth in the population of Western Europe was no more than 0.1 per cent. Up until 1800 farm production increased at a comparable rate.

Subsequently, agricultural output rose at a rapid pace in all the countries affected by the industrial revolution, permitting demographic expansion and improvements in living standards.

By 1950 farm employment in Western Europe had declined to 30 per cent of the total; it is now below 5 per cent. For decades agricultural productivity has been increasing by more than 2 per cent a year. In the industrial countries, the hunger and famines that were still common in the nineteenth century have been virtually eliminated. In France, where the agricultural system was most highly developed, there were no fewer than sixteen famines in the eighteenth century alone, and here in Florence, one of the richest and most advanced regions of Italy, there were 111 years of famine between the end of the 14^{th} century and the end of the 18^{th}.

It is perhaps owing to the collective memory of famine, the deep roots of peasant culture, and certainly the new requirements of environmental protection and health safeguards that farming continues to be at the centre of political and cultural debate. Farm subsidies, and not only in Europe, have absorbed very substantial financial resources, sometimes without corresponding benefits.

In Europe and the industrial world in general, public intervention in agriculture has become so pervasive that it has to be considered in any economic analysis of the sector. In my remarks today I intend to discuss some of the economic characteristics that distinguish the agricultural sector and to reflect on the objectives that should be pursued in today's conditions and the most appropriate instruments for attaining them.

1. Italian agriculture in the European context and the Common Agricultural Policy

The proportion of employment and value added accounted for by farming has diminished greatly as industry and services have expanded. In postwar Italy the transformation has been especially swift and intense, with a sharp differentiation between the North and the South. Between 1960 and 1998 the number of persons employed in farming fell from 6,600,000 to 1,340,000 and from one third of total employment to just over 6 per cent; the sector's value added dropped from 10 per cent of GDP to less than 3 per cent. Overall, the relative importance of farm employment and value added is in line with the values in the other leading European countries.

The transformation of the sector has produced efficient modern farms, but marginal activities are still to be found, especially in the South, where old and new forms of discontinuous and irregular employment are most common. The subdivision of the land into small parcels, which played a historically important role, may in some cases be economically detrimental. The Italian farm structure is very highly fragmented: three quarters of all farms are of less than 5 hectares. The proportion is about the same in Greece and Portugal, but lower in Spain; it is less than one third in the other countries of the European Union.

World trade in agricultural products and foodstuffs is highly concentrated in geographical terms. For most of the main product groups the top five exporting countries have market shares of 60 per cent or more. Italy is one of the top five importers of olive oil, cereals, animal feed, meat, eggs, milk and dairy products. It is among the top five exporters of fruit and vegetables, wine and olive oil. The European Union has become self-sufficient in farm products, but not Italy, which has a structural trade deficit that has diminished only a little over the past 15 years and ranged between 15 and 18 trillion lire in the nineties.

As a consequence of the Common Agricultural Policy (CAP), more than two thirds of Italy's agricultural trade is with other EU countries, although there has been a small contraction in their share in the nineties, to the advantage of South America and Africa. The competitiveness of farm products and the living standards of farmers appear to have benefited from the CAP less in Italy than in other EU countries.

European Commission data for the years from 1987 to 1990 show that the disposable income of farm households was appreciably higher in the Netherlands, Denmark and France, countries with national output surpluses, less fragmentation of production, and a lower proportion of marginal and seasonal activities.

In Germany, farm households have diversified their sources of income significantly and reduced the share of agricultural income from 60 per cent in the early seventies to 30 per cent. In Italy and France, by contrast, farm households continue to derive more than 60 per cent of their income from agricultural activities. While in France the net flow of Community resources has kept farm incomes above those of other households, in Italy the disposable income of farm households fell by about 10 percentage points in a decade: from 92.5 per cent of the average for all Italian households in 1984 to 82.1 per cent in 1993; on a per capita basis the percentage fell from 80.6 to 71.7.

In recent years there has been an increase in the importance of such activities as farmhouse holidays and the direct processing and sale of products. In the first case farm households seek to meet the rapidly growing demand for a new service; in the second they try to carry out on their own on an artisanal basis the stages that, within a vertically integrated process, account for a large share of value added. The distribution of overall value added between the production of crops, their transformation by the food processing industry and their marketing works to the disadvantage of farmers.

The pronounced diversification of types of farmer, farm sizes and roles of household members is not matched by a comparable differentiation of agricultural policies. The CAP should have more precisely targeted objectives that would help to calibrate measures to the different situations and foster the development of all the different phases of agricultural production and processing not least in connection with the need for food security that has emerged so clearly.

2. The economic characteristics of agriculture and the reasons for public intervention

The Treaty of Rome sets five objectives for public intervention in the agricultural sector: to increase productivity, ensure a fair standard of living for the agricultural community, stabilize markets, assure the availability of food supplies, and ensure that they reach consumers at reasonable prices.

Over the years, the protection of farm incomes and the stabilization of markets, which tend to conflict with the objective of reasonable prices, came to predominate. Insufficient attention is paid in the Treaty to the strictly interrelated issues of product quality and the protection of consumers' health, since these are problems that arose later.

One characteristic of the agricultural sector, already studied by Ernst Engel in the middle of the 19th century in what is now a classic of consumption theory, is the low income elasticity of the demand for farm products. This implies that as economic development advances the share of food in final consumption declines constantly. In Italy the share of food in total consumption has fallen over the last thirty years from 55 to 22 per cent. With demand rising more slowly than income and productivity increasing continuously, there is a steady reduction in the number of agricultural workers required to meet the need for farm products. The reallocation of labour between sectors causes concerns as to its social tolerability.

Public intervention ensures better living standards for farmers. It slows down the shift of excess labour to other sectors, which would otherwise be traumatic where unemployment in the rest of the economy is high and job creation limited. However, keeping a certain share of the population in the farm sector ultimately results in the protection of forms of organization that are often not efficient.

Public intervention is further justified by the variability of farm output and prices, which depend on weather and plant diseases and the low price elasticity of demand. Nevertheless, the problem is now less serious than in the past. Technical progress has sharply reduced the variability of harvests and the costs of storage; and above all, insurance against risk through the financial markets is now available on a sufficient scale.

Food self-sufficiency is also less crucial nowadays, thanks to the greater stability of international relations and major advances in the techniques of storing foodstuffs. However, maintaining an efficient farm sector with adequate output is still an important objective, first and foremost because of the potentially severe environmental consequences of abandoning the land. Events, apart from war, may also occur that restrict countries’ ability to supply products of acceptable quality, so that complete international specialization is inadvisable.

Security of supply now refers not so much to quantity as to quality. A number of specific problems have recently emerged in agriculture, each corresponding to an externality that warrants public action.

In the first place there is the impact of farming on the environment. Agriculture produces very substantial positive externalities with respect to the land by contributing to flood and water control and soil protection. In some cases, however, overuse of fertilizers and other chemical agents results in pollution. The ecological compatibility of agricultural activity is a more pressing issue today than ever before.

The availability of high-yield but potentially dangerous techniques has grown enormously in recent years and is being further boosted by developments in pharmaceuticals and genetics. In some cases this has engendered significant risks to health, with far-reaching repercussions on markets and eating habits. This calls for an increasing commitment to regulation and the control of compliance with safety standards.

There is growing scope for the production of high-quality products that safeguard health and satisfy consumers’ requirements. This is an activity that is well suited to the characteristics of Italian agriculture.

3. The instruments of intervention

Community intervention has traditionally involved the setting of target prices and corresponding minimum prices at which the European Commission undertakes to buy up any surplus output. The guaranteed minimum price is also ensured by other forms of support beside the buying up of surpluses: consumption and processing subsidies, compensation for set-aside and direct controls on supply, such as production quotas. Import duties align the prices of imports with those established for the area; export subsidies lower the prices of exports to the international level.

The system of price support has made it possible to achieve important objectives of the Treaty. Intervention prices have always been set higher than those prevailing in the world markets, thus supporting agricultural incomes and limiting their downward fluctuation. The greater profitability generated by higher prices and specific measures have stimulated investment in the sector, contributing decisively to the gain in productivity. In Europe the goal of food self-sufficiency has been reached and surpassed.

Since Community intervention is related to output volumes, it has benefited the intensive, industrial-style agriculture of Northern Europe more than extensive, Mediterranean farming.

In some cases success has been less than complete; in others there have been undesired effects. Income support has created economic rents for the most efficient producers, landowners, the manufacturers of capital and intermediate goods used in agriculture, and distributors. Family farms have benefited less than others from Community intervention. The latter’s cost has been disproportionate to the effective benefits to producers, particularly smallholders, whose activities are usually marginal.

Intervention has proved less effective in limiting the variability of incomes precisely in the regions where the sector is most exposed to the problem of sudden falls in household incomes, especially in Southern Europe.

The goal of a reasonable price for consumers is perhaps the CAP's greatest weakness and the one carrying the highest allocative costs. It is widely agreed that these costs could have been avoided, at least in part, with different forms of intervention.

Output-based incentives and prices set higher than the international level have led to increasing production surpluses. Price support and export subsidies, initially offset by duties on imports when there was a deficit on agricultural trade, have expanded rapidly, placing a heavy burden on the Community's finances. The outlays of the European Agricultural Guidance and Guarantee Fund have risen from 3 billion ecus in the early seventies to around 40 billion ecus today, or from 0.4 to 0.6 per cent of the area's GDP, and increased fivefold as a ratio to the sector's value added.

Part of the support has been directly charged to consumers, who pay more than the going international prices for agricultural products. This is no less than a hidden and highly regressive tax, since it bears disproportionately on the lowest incomes.

The greatest cost to society of Community intervention is that associated with the distortions it has produced in the allocation of resources both within the agricultural sector, owing to the differing degree of support provided for the various products, and between agriculture and the other sectors. This has lowered the economy's growth potential. Experts estimate that public intervention in agriculture has entailed a cost in terms of lost GDP on the order of 3 per cent.

The CAP is an obstacle to the enlargement of the Union to the countries of Central and Eastern Europe, where agriculture provides relatively high shares of employment and value added and food prices are lower. Extending the current rules to these countries would bring an unsustainable increase in EU expenditure on agriculture.

It would also adversely affect the non-agricultural population, who spend proportionally much more on food than is the case in Western Europe.

The total decoupling of agricultural income support from output would permit the adoption of targeted measures in favour of the more disadvantaged farmers and reduce the distortion in the allocation of resources. A hidden regressive charge would be replaced by explicit levies, with gains in efficiency and transparency. This would make it easier to apply conditionality to financial support, making it possible, for example, to reward eco-compatible crops.

In order to determine the optimal level of government to be made responsible for agricultural policy it is necessary to identify the geographical and institutional limits of the externalities produced. The regulation of prices in a single market has been the reason until now for the supranational nature of agricultural policy. If intervention was mainly in the form of direct support for agricultural incomes, its implementation could be largely left to local government, in order to adapt its features to the different economic systems in which farmers operate.

Other tasks would best be entrusted to the European level. Given the free circulation of goods, it is to be hoped that the setting of quality standards and the imposition of sanctions for violations will be assigned to the Community, acting in conjunction with the national authorities according to subsidiarity rules. The local level could be assigned environmental objectives alongside responsibility for direct transfers to farmers.

Systems of intervention not based on prices, together with greater respect for the principle of subsidiarity, would make enlargement to the countries of Central and Eastern

Europe less problematic by reducing the burden on the Community budget. Each country would choose the level of agricultural support compatible with its economic situation.

4. International relations, the CAP and Italian agriculture

The calls for a revision of the Common Agricultural Policy gained strength as its distributive and allocative costs emerged and some of its original objectives became less pressing. They are best reflected by the MacSharry reform of 1992, based on a reduction in intervention prices offset by payments no longer linked to output. The reform intersected logically and chronologically with the progress of the Uruguay Round, begun in 1986 and completed in 1994 with the signing of the new treaties and the birth of the World Trade Organization. Although implementation of the MacSharry reform has recently slowed, it appears to have laid down an irreversible and more rational path for public intervention in the sector.

The regulation of trade in agricultural products is still the top priority on the WTO's agenda for the more than 150 member countries.

Internationally, the lines are drawn principally between the interests of the exporting and importing countries, the former intent on eliminating all tariff barriers or barriers with equivalent effect, the latter on preserving more or less protectionist regimes. In addition to the United States, the countries of the so-called Cairns Group, including Australia, Argentina and Canada, are militant protagonists among the ranks of the former; notable among the latter are the European Union, together with the countries that are candidates for membership of the Community and those that enjoy preferential arrangements with it, and Japan and Korea, which currently set heavy restrictions on rice imports.

Not all of these positions are attributable to the exporter-importer dichotomy. Even countries with a vast array of products to export, such as the United States and Canada, have contradictory positions in some sectors of national interest. Egypt, Jamaica, Mexico, Peru and others are braking the generalized abolition of export subsidies, deeming it harmful to the interests of countries that are structurally net importers on account of the rise in the prices of foodstuffs that would ensue.

As to the European Union, until only a few months ago it was widely expected to enter into even more stringent commitments than those accepted in 1994, owing not so much to the cost of the threatened trade retaliation in other sectors as to the growing financial unsustainability of the CAP. However, after the latest, bland reform, the prospect of further liberalization, together with that of the enlargement of the Union, appears to have grown more distant.

There are pressures within the Union for a more resolute decoupling of interventions from output, for greater environmental and health protection and for a reallocation of tasks among the various levels of government. The interests of the various countries combine differently, depending on the sector and the type of instrument to be used. The general stance of each country is correlated with its overall net financial and agricultural position vis-à-vis the Union.

The CAP favours the countries with a high degree of agricultural self-sufficiency; Italy is not among them.

In the nineties Italy’s overall financial position was in deficit. This year, according to the National Institute of Agricultural Economics, direct transfers from the CAP to

Italy, on the order of 3.5 billion euros, will fall short of the amount Italy contributes to covering the corresponding requirements of the Community budget by almost 400 million euros. This figure compares with deficits of 2.8 billion euros for Germany, 1.4 billion for the United Kingdom, 0.9 billion for the Netherlands and 0.5 billion for Belgium. Spain, France and Greece will continue to reap the largest net financial benefits, some 2 billion euros each.

If account is taken of the implicit transfer incorporated in the higher prices paid by consumers and those who use agricultural products, including farmers and livestock breeders themselves, Italy’s contribution is much larger.

In this context it is essential to understand how prices within the Union are evolving relative to those in international markets. In 1968, when the system of common prices was introduced, European prices for important agricultural goods were roughly double those in international markets. The average wedge between European and world prices widened until the turn of the nineties. In 1990, hard wheat, maize and sugar were among the foodstuffs whose Community intervention price was between 2.5 and 3 times the world price.

The first vigorous measures that attenuated income support in the form of intervention prices, by lowering their level, also brought a reduction in the quantities produced in the Union. The transition was made possible by compensating producers with direct transfers, which in 1997 were nearly 60 per cent of the outlays of the Guarantee Section of the Fund, compared with 32 per cent in 1993. By contrast, the share of the Fund’s outlays for export subsidies and the buying in and management of stocks fell over the same period from 48 to 19 per cent.

The convergence of European prices towards international levels can be measured by an indicator devised by the OECD, which shows that for a set of products representing some two thirds of the European Union’s total food purchases the average European price, net of consumption subsidies, was 30 per cent higher than the international price, compared with 82 per cent ten years earlier.

The surplus products taken up by the Union have also contracted sharply. For cereals, they fell from 18 to 2 million tonnes in three years.

Agriculture enjoys high levels of protection in most of the OECD countries, albeit with differences in the manner of public intervention. This is particularly true in Japan, where domestic prices are still 87 per cent higher than world prices.

However, the success of the agreements reached within the World Trade Organization may be partly tied to transitory factors, which have raised international prices rather than diminishing domestic ones. Moreover, national policies of support for agriculture tend to lower international prices. The differences recorded probably overestimate the extent of real protection; their attenuation has helped to narrow the gap between the two levels.

5. The outlook for public intervention

The sharp fall in prices has not involved a commensurate reduction in subsidies for agriculture, which have partly taken the form of direct transfers to income. According to OECD data, between the three years 1986-1988 and 1996 the share borne by national and Community taxpayers and by consumers declined from 2.5 to 1.1 per cent of GDP in the European Union and from 2.6 to 1.3 per cent in the advanced countries as a group. The cost of around 100 billion euros that the CAP generates each year in the form of public subsidies and higher prices diminished only marginally. The share of the invisible cost attributable to higher prices declined from 67 to 41 per cent in ten years.

These developments in prices and interventions can limit the redistributive cost of the CAP, particularly for countries with deficits on food and agricultural trade. The trend is less traumatic for Italy than for the Union as a whole. Many of the typical products of Italian agriculture already do not benefit from Community protection or are subject to conditional transfers. Moreover, Italy stands to gain greatly from the strengthening of the Union's structural measures, which are still sacrificed to the demands made on financial resources by agricultural intervention.

The content of the preferential regimes granted to the countries on the other shore of the Mediterranean are perhaps of greater importance for Italian producers. In relations with Morocco, Tunisia, Israel and, more recently, Jordan, Algeria and Syria, the content has gradually extended from trade to other matters, giving shape first to cooperation agreements and then to authentic association agreements pointing to the creation of a free-trade zone. Political goals play an essential role, not least because of the important flow of migration from these areas to Western Europe.

International relations are reinforcing the drive to continue the CAP reform embarked on by the European Commission. A similar approach has also distinguished Agenda 2000, the latest expression of the Union's programmatic guidelines. Progress remains limited, however. The decisions of the European Council in Berlin in March of this year, though generally favourable for Italy, established that "the agricultural guideline will remain unchanged", disappointing those who had been expecting the meeting to give a fresh impulse to the reforms.

In the allocation of Community budget resources, equal to 1.27 per cent of the Union's GDP, agriculture was given up to a maximum of 42.5 billion euro a year on average, compared with 30 billion for structural policies, out of a total of a little less than 100 billion.

The European Council of Berlin affirmed that "this reform will ensure that agriculture is multifunctional, sustainable, competitive and spread throughout Europe, ... that it is capable for maintaining the countryside, conserving nature and making a key contribution to the vitality of rural life, and that it responds to consumer concerns and demands as regards food quality and safety". In this long recital of aims, stress has plainly been laid almost entirely on the externalities deemed to be associated with agricultural activity rather than on support and the stabilization of prices and incomes.

This shift is dictated by the growing threats that intensive land use and the industrial scale of much processing pose to the environment and food safety. It must also be borne in mind that a reform of the CAP could never be limited to decoupling aid from output, not least because offsetting all of the hidden tax on European consumers with direct income subsidies charged to the Union would exceed the resources of the Community budget.

Reform is possible only to the extent that other current trends develop, essentially in the direction of a better application of the principle of subsidiarity, conditionality of aid and increased competitiveness of European products. Subsidiarity allows policies to be calibrated so as to favour modern farms over marginal units serving to supplement incomes produced in other sectors, it facilitates making aid disbursement conditional on compliance with quality standards and allows part of the burden to be shifted onto the budgets of the member states.

The reduction in the overall support provided by the CAP should be in the segments that least need such support or choose not to comply with more stringent rules of health and environmental protection. At the same time, it should be fully sustainable for producers who raise their competitiveness by differentiating supply and capitalizing on regional strengths.

By improving product quality and achieving vertical integration, the food and agricultural sector could boost the value added of production considerably. It is sufficient to consider that since 1980 the consumer prices of food products in Italy have risen more than 1.5 percentage points faster than the international prices of agricultural commodities in lire.

The link between the prices of agricultural goods and those of food products with various degrees of processing is weak and tending to weaken further owing to the trend in consumers' tastes and the policies of the food processing and distribution industries. A significant share of the expenditure on food is on valued added products and has little correlation with nutritional content.

6. Progress in agriculture and hunger in the world

This century has seen enormous progress in our ability to provide sufficient sustenance for increasing numbers of people, thereby reducing the proportion of those suffering from malnutrition and hunger. Fundamental to this is the progress made in agriculture in the last fifty years, which has resulted in output far outstripping world population growth. Since 1950 the world population has been growing at an annual rate of about 1.9 per cent; in the same period the production of cereals has risen at a rate of 2.7 per cent, thanks mainly to higher productivity: output per hectare has increased on average by 2.3 per cent.

The global per capita supply of food for direct consumption is 20 per cent higher than at the beginning of the sixties. The share of the world population still living on a daily per capita intake of less than 2,200 calories has declined sharply; thirty years ago more than half the people of the world lived on less.

The experience of recent decades, particularly in Asia, shows that agriculture can provide an essential contribution to the economic growth and welfare of developing countries. The green revolution in India in the sixties and the institutional reforms introduced in China in the eighties have considerably increased agricultural productivity. In China the increase was so rapid that in only a few years the average daily per capita consumption of calories rose from less than 2,200 to more than 2,500, enabling large sections of the population to emerge from a state of malnutrition.

These developments have nonetheless not been distributed uniformly. Sub-Saharan Africa and large areas of Southern Asia are still beset by structural food shortfalls and are not yet able to procure sufficient food in the world markets on a stable basis. It is estimated that about 800 million people are still undernourished.

The coexistence of excess production in industrial countries and endemic malnutrition in the poorest countries, with recurrent devastating famines particularly in sub-Saharan Africa, reveals a close relationship between backwardness and hunger. On the one hand producers are unable to sell all their output in the market at a profit, while on the other potential consumers are barred from the market. Faced with a global supply of food sufficient to sustain the entire world population, poverty emerges as the cause of undernutrition.

History has belied the theory, rooted in the works of Malthus and Ricardo, that a growing population would call for cultivation to be gradually extended to less fertile land, thereby subtracting resources from other sectors of the economy and leading to a general decline in the standard of living and higher relative prices for food.

The danger that large sectors of the world population could suddenly find themselves in conditions of malnutrition or even real hunger does not necessarily stem from a contraction in the supply of food, but rather from their lack of access to the market. As Colin Clark and, more recently, Amartya Sen, have pointed out, an analysis of this century's major famines appears to confirm that their roots lie in the poverty of millions of people eking out a precarious existence bordering on subsistence. Sudden changes in the economic or political situations in backward countries can easily lead to these people's exclusion from the market. The comparative success achieved by nations that were once the victims of repeated famines, such as India, in avoiding the recurrence of such tragedies can be ascribed partly to the promotion of policies aimed at supplementing the purchasing power of the most vulnerable social groups.

One useful contribution to improving the living conditions in the most heavily indebted countries could be to provide relief for the debts they have contracted in international markets. The recent G7 summit decided to reduce these countries' foreign debts substantially, more than halving the current total of $130 billion. This line of action should be taken further and an overall plan drawn up for the year 2000.

While there would appear to be no danger of a global food shortage today, we should not underestimate the importance of local supplies of agricultural products. The income and sustenance of the majority of the developing countries' populations often depend on agriculture. Increasing agricultural productivity and output in these countries can be an effective method of combating poverty.

The industrial countries' policies aimed at protecting their own primary sectors have a marked impact on the quantities produced and on prices in the world markets. By keeping European prices artificially high and taxing imports in order to give EU products a competitive edge, the CAP guides domestic demand towards national producers and away from those of developing countries.

The protectionist policies of the industrial countries have helped to create a marked change in the trade flows of agricultural products around the world. Before the Second World War exports of agricultural products from the market economies of the Third World were more than double their imports. Since the end of the war the agricultural balance of trade of these countries has gradually deteriorated, with imports growing much faster than exports. Today the balance on their agricultural trade is substantially in equilibrium.

Conclusions

The compromise reached in Berlin is provisional: EU budget and external relations considerations call for a lasting and satisfactory overhaul of the system. The introduction of less distorting mechanisms to support agricultural income, combined with a gradual alignment of European prices with those in world markets, would eliminate the most harmful features of the CAP; support would be more explicit; the regressiveness created by high prices for agricultural goods would be corrected; intervention could be made more selective; and it would be possible to provide incentives for environmentally friendly forms of production.

Bringing European agricultural prices into line with world prices would make it easier to fulfil the commitments entered into within the ambit of the WTO, thereby facilitating the Millennium Round negotiations; it would also eliminate the need for agricultural policy to be formulated at the European level, thereby facilitating the enlargement of the Union to Central and Eastern European countries.

With a view to economic growth and the prospects of higher employment throughout Europe, it is in the interest of Italy and the entire European Union that the Community budget be used more efficiently to strengthen international competitiveness and benefit agriculture as well. It is necessary to invest in basic scientific research and the development of human resources; finance infrastructure; and encourage industrialists to implement projects in advanced technology sectors.

In 1957 the inaugural address to the 204th meeting of the Accademia dei Georgofili, here in Florence, was given by Luigi Einaudi. Then, too, agriculture was the subject of lively interest and debate. A wide-reaching programme of agrarian reform had been introduced a few years earlier and the Treaty of Rome laid the foundations for the Common Agricultural Policy. Today the sector is again the focus of discussion. Einaudi was a profound connoisseur of agricultural economy and we can endorse his conclusion, that “the living need of the agricultural world, whether ancient or modern,” is for “continuous change and renewal” and that “if I do not know exactly what Italian agriculture will be like in the future, I nonetheless know that the changes will not cease”.

The agricultural and food sector is evolving rapidly. The aging population of developed countries, the increasing numbers of women in employment, and the rising number of one-person households all affect nutritional habits and the demand for products and services.

Product quality, in terms of both the health and the wishes of consumers, must be recognized as the core element in the sector’s growth strategy. General measures concerning agricultural production must increasingly be replaced by government intervention to protect public health and sustain quality production. In Italy a reorganization of the administrative agencies operating in the sector could contribute to this change in policy.

Agricultural experts and scientists will have an important role to play in proposing the most appropriate techniques and training specialist personnel. The prestige and analytical expertise of your Academy allow it to provide support of the highest quality.

Recent events call for a profound reflection and decisive political action at Community level. The restoration of market mechanisms, the liberalization of the prices of food products and the disbursement of direct aid are not enough to protect consumers' interests. Quality standards and transparency for food products must be made compulsory and severe sanctions imposed on producers who fail to comply. Stricter legal safeguards must be put in place for widely diffused interests and links established with the policy guidelines that have emerged at the international level.

This is the contribution that economists, bearing general macroeconomic equilibria in mind, can make to the formulation of an agricultural policy that will reconcile the interests of farmers and consumers with the more general objective of rapid economic growth. The agricultural sector's contribution far exceeds the value added it produces, thanks to the richness of its traditions and the large external economies it generates to the benefit of the entire community.

Table 1

Main features of farm employment
(thousands of units)

	1960	1970	1980	1990	1998
Total farm employment					
Employees	1,746	1,236	1,088	791	497
Self-employed	4.865	2,642	1,811	1,104	842
Total	6.611	3,878	2,899	1,895	1,339
Total non-farm employment					
Employees	10,009	11,682	13.586	14,431	13,961
Self-employed	3,709	3,765	4,004	4,978	4,897
Total	13,718	15,447	17,590	19,409	18,858
Percentage of farm employment					
Employees	14.9	9.6	7.4	5.2	3.4
Self-employed	56.7	41.2	31.1	18.2	14.7
Total	32.5	20.1	14.1	8.9	6.6

Source: Istat, *Indagine sulle forze di lavoro.*

Table 2

Number and size of farms

(thousands, except where indicated)

Census	1-5 hectares			More than 5 hectares			Total		
	No. of farms	Total area	Avg. area (1)	No. of farms	Total area	Avg. area (1)	No. of farms	Total area	Avg. area (1)
1930	1,805	4,491	2.49	900	21,116	23.46	2,705	25,607	9.47
1961	1,863	4,701	2.52	1,015	21,161	20.85	2,878	25,862	8.99
1970	1,570	3,968	2.53	870	20,481	23.54	2,440	24,449	10.02

Census	1-5 hectares			More than 5 hectares			Total		
	No. of farms	Area in use	Avg. area in use (1)	No. of farms	Area in use	Avg. area in use (1)	No. of farms	Area in use	Avg. area in use (1)
1980	1,312	3,023	2.30	614	12,382	20.16	1,926	15,405	8.00
1987	1,340	3,045	2.27	634	12,096	19.08	1,974	15,141	7.67

Situation in 1993

Country	0-5 hectares			More than 5 hectares			Total		
	No. of farms	Area in use	Avg. area in use (1)	No. of farms	Area in use	Avg. area in use (1)	No. of farms	Area in use	Avg. area in use (1)
Italy	**1,923**	**2,885**	**1.50**	**565**	**11,851**	**20.96**	**2,488**	**14,736**	**5.92**
Belgium	25	51	2.04	51	1,293	25.35	76	1,344	17.68
Denmark	2	3	1.76	72	2,736	37.95	74	2,739	37.11
Germany	190	426	2.24	416	16,596	39.89	606	17,022	28.09
Greece	617	1,143	1.85	202	2,416	11.96	819	3,559	4.35
Spain	789	1,567	1.99	595	23,147	38.90	1,384	24,714	17.86
France	217	440	2.03	584	27,667	47.38	801	28,107	35.09
Ireland	16	50	3.13	143	4,228	29.57	159	4,278	26.91
Netherlands	38	83	2.18	82	1,932	23.56	120	2,015	16.79
Portugal	381	649	1.70	108	3,301	30.56	489	3,950	8.08
UK	35	84	2.40	208	16,299	78.36	243	16,383	67.42
Euro-12	**4,234**	**7,384**	**1.74**	**3,030**	**111,569**	**36.82**	**7,264**	**118,953**	**16.38**

(1) Hectares.

Sources: Istat for the Italian censuses up to 1970; European Commission for the other data.

Table 3

European Community budgetary expenditure and GDP at current prices

(billions of ecus)

	EAGGF	GDP EU-6	GDP EU-9	GDP EU-15	EAGGF/GDP of the area in %
1971	1.88	537.9			0.35
1972	2.48	602.9			0.41
1973	3.77		888.5		0.42
1974	3.65		1,009.5		0.36
1994	40.75			6,184.1	0.66
1995	40.25			6,466.9	0.62

Source: European Commission.

Table 4

Financial dealings between the EU and the member states

(millions of ecus)

	Net position of member states vis-à-vis the EU budget - 1992-97			EAGGF-guarantee expenditure by country	Net position direct CAP aid
	EU operating expenditure	Total own resources	Net position	avg. 1992-97	1999 (1)
Belgium	2,007.0	2,643.1	-636.1	1,262.5	-523
Denmark	1,514.6	1,284.6	230.0	1,292.5	251
Germany	8,455.6	20,120.7	-11,665.1	5,322.2	-2,817
Greece	4,912.6	1,000.3	3,912.3	2,608.3	1,809
Spain	9,391.8	4,716.5	4,675.4	4,224.3	2,119
France	10,671.9	12,012.6	-1,340.7	8,351.0	1,914
Ireland	2,804.4	617.0	2,187.4	1,605.1	426
Italy	7,391.9	8,398.3	-1,006.4	4,344.3	-382
Luxembourg	95.5	159.2	-63.7	12.8	-44
Netherlands	2,476.0	4,238.9	-1,762.9	1,940.5	-903
UK	5,319.5	7,857.5	-2,537.9	3,135.5	-1,363
Portugal	3,354.1	959.6	2,394.5	602.5	75
Finland (2)	964.3	971.1	-6.8	425.9	-114
Sweden (2)	1,078.5	1,984.4	-905.9	480.8	-228
Austria (2)	1,307.8	1,915.8	-608.0	719.0	-220
Total	60,070.2	66,443.8	-6,373.6	35,620.3	0

(1) The net position is the difference between the direct payments received under the CAP and the corresponding budgetary contribution.

(2) Averages, 1995-1997.

Sources: Based on INEA and European Commission data.

Table 5

EAGGF-Guarantee expenditure by type of intervention and EAGGF-Guidance expenditure
(millions of ecus)

	1993	1994	1995	1996	1997
EAGGF-Guarantee					
Total	**35,133**	**34,024**	**35,649**	**40,230**	**41,543**
Of which (in %):					
Export refunds	29	24	22	14	14
Storage and management of stocks	19	5	2	4	5
Set-aside	4	9	10	9	8
Consumption support measures	5	4	3	2	2
Processing support measures	7	6	6	5	5
Production support measures	32	47	52	59	59
Other interventions	5	5	5	7	7
Italy	**4,902**	**3,795**	**3,946**	**4,814**	**5,515**
EAGGF-Guidance (commitments)					
Total	**2,996**	**3,335**	**3,609**	**3,935**	**4,132**
Italy	**618**	**263**	**454**	**428**	**580**

Source: INEA, based on European Commission data.

Table 6

Agricultural subsidies

	United States			European Union			Japan			OECD		
	1986-88	1993-95	1996	1986-88	1993-95	1996	1986-88	1993-95	1996	1986-88	1993-95	1996
Statistical coverage as a % of production - 1996		**70**			**65**			**57**				
Producer subsidies as a % of revenues: TOTAL (*)	**30**	**18**	**16**	**48**	**49**	**43**	**73**	**75**	**71**	**45**	**41**	**36**
Producer subsidies as a % of revenues: WHEAT	54	33	24	56	52	29	101	102	99	54	42	27
Producer subsidies as a % of revenues: RICE	55	39	12	66	60	46	92	95	88	89	90	82
Producer subsidies as a % of revenues: SUGAR	63	50	51	73	53	54	74	72	70	66	49	49
Producer subsidies as a % of revenues: MILK	64	48	48	64	61	60	90	89	83	66	60	57
Cost to consumers as a % of food purchases (**)	**13**	**9**	**9**	**44**	**37**	**22**	**57**	**51**	**46**	**37**	**31**	**23**
Premium with respect to international prices (***)	16	10	10	82	61	30	134	103	87	61	47	31
Total transfers (billions of ecus)	**63**	**61**	**54**	**103**	**109**	**95**	**56**	**74**	**61**	**253**	**273**	**234**
of which (1):												
Borne by taxpayers	48	49	42	35	47	56	16	26	18	112	137	130
Borne by consumers	15	12	12	69	62	39	50	62	53	153	152	115
Total transfers (as a % of GDP)	**1.5**	**1.1**	**0.9**	**2.5**	**1.5**	**1.1**	**2.6**	**1.9**	**1.7**	**2.2**	**1.6**	**1.3**
of which (2):												
Portion attributable to market price support	42	50	47	98	74	51	85	83	85	79	72	60
Portion attributable to direct payments	36	19	20	8	23	33	7	6	6	18	18	23
Portion attributable to other budgetary support	24	34	33	13	13	16	9	11	10	17	15	18
Value added in agriculture (as a % of GDP in 1992-94)		**1.5**			**1.9**			**1.5**			**1.8**	
Farm employment (as a % of total employment in 1992-94)		**2.8**			**5.6**			**6.0**			**8.8**	

(*) ***Producers subsidy equivalent***: transfers to farmers: direct payments, subsidies on purchases of farm inputs, state aid; the product of the higher prices and the quantities produced.
(**) ***Consumer subsidy equivalent***: the product of the higher prices and the quantities consumed less consumer subsidies.
(***) ***Nominal assistance coefficient***: ratio of the unit consumer subsidy equivalent to world prices.

(1) The sum may exceed 100 owing to the budgetary revenues of the CAP (e.g. import duties).
(2) The sum may exceed 100 owing to levies on output and adjustment for intermediate consumption.

Source: OECD, *Agricultural Policies in OECD Countries, Measurement of Support and Background Information, 1997.*

Table 7

EU intervention stocks at end of crop year (1)

	1993-94	1994-95	1995-96	1996-97
Soft wheat	6,480	1,993	459	497
Rye	2,545	1,208	793	1,049
Barley	6,526	3,276	1,344	798
Hard wheat	1,152	399	85	1
Maize	1,130	8	0	10
Total cereals	17,993	6,884	2,681	2,355
Butter	161,755	33,713	36,366	44,755
Skimmed milk in powder	40,847	43,837	9,363	117,620

(1) Thousands of tonnes for cereals; tonnes for butter and milk.

Source: European Commission.

Table 8

EU financial perspective from 2000 to 2006
(millions of ecus)

	EU-15		EU-21	
	Total	Average	Total	Average
Agriculture	297,740	42,534	297,740	42,534
CAP expenditure (excluding rural development)	267,370	38,196	267,370	38,196
Rural development and accompanying measures	30,370	4,339	30,370	4,339
Structural operations	213,010	30,430	213,010	30,430
Structural funds	195,010	27,859	195,010	27,859
Cohesion funds	18,000	2,571	18,000	2,571
Internal policies	42,350	6,050	42,350	6,050
External action	32,060	4,580	32,060	4,580
Administration	33,660	4,809	33,660	4,809
Reserves	4,050	579	4,050	579
Monetary reserve	1,250	179	1,250	179
Emergency aid reserve	1,400	200	1,400	200
Loan guarantee reserve	1,400	200	1,400	200
Pre-accession expenditure	21,840	3,120	21,840	3,120
Agricultural instrument	3,640	520	3,640	520
Structural instrument	7,280	1,040	7,280	1,040
PHARE (candidate countries)	10,920	1,560	10,920	1,560
Enlargement (*)			58,070	11,614
Agriculture (*)			12,410	2,482
Structural operations (*)			39,580	7,916
Internal policies (*)			3,950	790
Administration (*)			2,130	426
Total appropriations for commitments	644,710	92,101	702,780	100,397
Total payment appropriations	640,470	91,496	685,870	97,981
Payment appropriations as a % of GNP	7.5	1.1	7.8	1.1
Available for accession (*)	45,400	9,080		
Agriculture (*)	12,410	2,482		
Other expenditure (*)	33,190	6,638		
Maximum amounts in payment appropriations (*)	685,870	97,981		
Maximum amounts in payment appropriations as a % of GNP	8.0	1.1		
Margin, as a % of GNP	0.9	0.1	1.1	0.2
Maximum own resources, as a % of GNP	8.9	1.3	8.9	1.3

(*) Averages from 2002 to 2006.
Source: *Presidency Conclusions, Berlin European Council, 24 and 25 March 1999*.

Table 9

Consumption and relative prices of foodstuffs in Italy

	International prices of agricultural raw materials in lire	Consumer prices of foodstuffs	Consumer prices of non-food products and services
Annual % change 1974-1998	7.5	8.8	10.3
Annual % change 1980-1998	4.9	6.5	7.6

	1938	1961	1970	1980	1989	1995
Share of foodstuffs in total consumption	66.4	54.7	46.7	35.0	23.9	22.0

Sources: Based on IMF and Istat data.