

**Mediterranean european countries (MEC) strategies in relation to the final act of the Uruguay Round**

**Damianos D., Hassapoyannes K.**

*in*

Papadopoulou Z. (comp.), Cauwet L. (comp.), Papadopoulou Z. (collab.), Cauwet L. (collab.).  
The GATT and Mediterranean agricultural trade

**Chania : CIHEAM**

**Options Méditerranéennes : Série A. Séminaires Méditerranéens; n. 30**

**1997**

pages 81-90

Article available on line / Article disponible en ligne à l'adresse :

<http://om.ciheam.org/article.php?IDPDF=C1000409>

To cite this article / Pour citer cet article

Damianos D., Hassapoyannes K. **Mediterranean european countries (MEC) strategies in relation to the final act of the Uruguay Round.** In : Papadopoulou Z. (comp.), Cauwet L. (comp.), Papadopoulou Z. (collab.), Cauwet L. (collab.). *The GATT and Mediterranean agricultural trade* . Chania : CIHEAM, 1997 . p. 81-90 (Options Méditerranéennes : Série A. Séminaires Méditerranéens; n. 30)



<http://www.ciheam.org/>  
<http://om.ciheam.org/>

# MEDITERRANEAN EUROPEAN COUNTRIES (MEC) STRATEGIES IN RELATION TO THE FINAL ACT OF THE URUGUAY ROUND

Dimitri DAMIANOS  
Katharina HASSAPOYANNES  
University of Patras, Greece

## ABSTRACT

GATT's Final Act is expected to cause significant changes in the agricultural sector and in the rural society of the Mediterranean European Countries (MEC). Increasing competition in the world markets will force conventional agriculture to become more capital intensive, thus adding to the problems of rural unemployment and skewed distribution of income. Therefore, an integrated approach toward sustainable rural development needs to be adopted. Conventional agricultural practices should target young farmers, whereas supplementary rural development policies should aim at absorbing the shocks in agriculture. Such policies include the adoption of alternative farming systems, incentives for the settlement of young farmers, women, and specialized professionals in rural areas, and the effective use of Community programs.

## KEYWORDS

Sustainable rural development; Alternative farming systems; Pluri-activity; Alternative activities

## I. THE URUGUAY ROUND AND THE INTERNATIONAL TENDENCIES IN AGRICULTURAL POLICY AND TRADE

The last cycle of the GATT's (General Agreement on Tariffs and Trade) multilateral trade negotiations, known as the Uruguay Round, was carried in Punta del Este in September 1986, in the midst of worldwide tensions in agricultural markets. These crises brought to attention the distortions that domestic agricultural policies of industrialized countries effect on the world markets [Guyomard and Mahé 1994]. Whether as the result of the realization of world market distortions or of increasing budgetary pressures and of the accumulation of structural surpluses stemming from the continuation of price support policies in several industrialized states, a tendency toward trade liberalization and a switch to more competitive world markets of agricultural products there began. The international environment was ready to consider the reform of agricultural policies.

Indeed, in 1987, the OECD announced the Ministerial Principles which called for improvements in the market orientation of agricultural sectors through concerted reductions in the support of agriculture and in the protection of agricultural markets. The Ministerial Principles aimed at the convergence of domestic prices of agricultural products with their respective world levels. Nevertheless, particular importance was attached to the reduction of measures that distort the world markets, by obstructing the transmission of world price movements to domestic producers [Hewitt 1994]. Transparency became a priority criterion in policy making, since it allowed for better planning of the distribution of benefits and prevented the leakage of benefits to other industries.

Five years later, the European Communities (EC) reformed the Common Agricultural Policy (CAP) under the pressure of budgetary constraints and of the United States, a significant trade partner of the EC which orchestrated the GATT negotiations for the Uruguay Round. The CAP reform brought the EC prices closer to the world market levels, introduced direct income aids (hectares and livestock units), and implemented a set-aside scheme [Guyomard and Mahé 1994], thus reducing the support linked to production levels.

In 1994, the ratification of the Uruguay Round Agreement signalled a turning point and initiated a new and irreversible approach toward confrontation of the problems of the agricultural sector. The Agreement, being in alignment with the 1987 OECD Ministerial Principles, accentuated the importance of policy transparency, market orientation and trade liberalization, by imposing the tariffication and the reduction of the heavily distorting non-tariff measures, by restricting the disguised forms of protection [Hewitt 1994], and by exempting from reduction decoupled forms of support.

As a result, some measures became more popular than others. For example, measures which allow for full transmission of world price movements to domestic markets (e.g., ad-valorem tariffs) are preferred to measures which isolate the domestic markets completely, transfer the burden of adjustment to world market prices, and distort the world price equilibrium levels (e.g., production quotas, variable import levies).

In any case, given the biological characteristics of agriculture, among others, the sector cannot be left to operate without any assistance. Hewitt [1994] claims that agricultural policies should aim at stabilizing the farmer's income, fostering structural adjustment, assisting low income families, or providing environmental services. Direct or targeted income payments could be suitable measures for attaining such goals. Nevertheless, a few policies, such as input-supply limiting policies (i.e., set-aside, production quotas) may not be able to avoid distortions in the allocation of production resources [Hewitt 1994].

At the outset of the era after the Uruguay Round, the attention of policy makers should be drawn to the new priorities for the agricultural sector, such as the introduction of policies dealing effectively with agri-environmental and rural development issues [Hewitt 1994]. At the threshold of the 21st century, the new world situation requires policies for people, not for products.

**II. THE CHARACTERISTICS OF THE AGRICULTURAL SECTOR IN THE MECS<sup>1</sup>**

Apart from its contribution to the national accounts, agriculture provides an important source of employment in all the MECs. In the least extreme case of France, agricultural employment amounts to 7% of the total labor force. In Greece and Portugal, according to 1988 data, more than 20% of the total labor force are engaged in agriculture.

The MECs use less capital intensive techniques of production than the northern Member States of the EU. As a consequence of the high labor to capital ratio, the farm labor force of the MECs has a very weak productivity performance, when measured in real net value added per annual work unit.

Most farms in the MECs constitute family businesses, as is shown by EUROSTAT's 1993 data; the French agricultural sector has a slightly more commercial character, with 10% of the total farm labor supplied from the market. In the other MECs, less than 5 in 100 of the people working on farms are hired.

Nevertheless, among the people comprising the farm labor force, only one in every ten persons is employed exclusively (on a full-time basis) in agriculture in Greece, Portugal, and Italy (table 1). In Spain and France the percentage of fully-occupied people in the farm rises to 20 and 40% respectively. Thus, the vast majority of farmers is either underemployed or has other occupations. The latter is of particular importance, since more than 40% of the total income of agricultural households originates in non-farming activities. Larsen and Hansen state that the EC in general is characterized by extensive part-time farming. They conclude that in the EC "most farmers must not be dependent on farming activities for their income, and that farming to a very large extent is a residual occupation for families living on farms". They continue by saying that "the social nature of the farm-price policy is highly questionable because of its highly progressive benefits and because off-farm income is generally the more important income component on small farms" and "that if the EC, ..., were to maintain a fair standard of living from farm income on small farms, the costs would be exorbitant."

**TABLE 1 - FARM LABOR FORCE, 1993**

	Total Farm Labor Force (%)	Full-time/Total Farm (%)	Family/Total Farm (%)
Greece	12	10	100
Spain	17	21	95
France	11	39	90
Italy	32	12	98
Portugal	8	12	95
EU-12	100	22	94

Source: Calculated from data presented in EUROSTAT, Statistics in Focus, 1995-12

The need for a more innovative and effective policy for rural development is also shown by the age structure of the farm managers (table 2). As Frohberg mentions, "the age structure of the workforce is a determinant for future development, independently of economic factors". In Portugal, Italy, and Greece about 60% of the farm managers are over 55 years of age. In Spain half of the managers are older than 55

<sup>1</sup>Data provided in this section were taken from Merlo and Manente, Sarris, Larsen and Hansen, Frohberg, and EUROSTAT.

years and the percentage drops to 40% in France. In addition, almost 60% of the farmers older than 55 years of age are found on small holdings. Especially in Greece, Portugal, and Italy, 30% of the farmers over 55 years of age work on holdings of smaller size than 5 hectares. The situation calls for the attention of society and policy makers.

Sarris states that "the problems of southern EC agriculture are not of inadequate income per farm or inadequate capital per farm, but simply of larger number of small farms relative to the north. This in turn might be due on the one hand to land constraints coupled with the history of land-tenure systems, as well as to the overall lower level of development and hence lower overall level of capital" [p.119]. Merlo and Manente also claim that "the low labor productivity and income in Portugal, Spain, Southern Italy, and Greece is due firstly to natural factors; climate and a high percentage of mountainous areas, ...The most significant element however is related to the average farm area".

**TABLE 2 - AGE OF THE MANAGER, 1993 (%)**

	< 35 Years	35-54 Years	55-64 Years	> 65 Years	Total
Greece	7	36	28	29	100
Spain	8	39	31	22	100
France	13	45	27	15	100
Italy	6	33	29	33	100
Portugal	5	33	29	33	100
EU-12	9	38	28	25	100

Source: Calculated from data presented in EUROSTAT, Statistics in Focus, 1995-12

"In Portugal, Italy, and Greece about three-quarters of all holdings are in the size class of less than 5 hectares. There is also a very high share of small holdings in Spain, where more than one-half are less than 5 hectares in size. In Greece, Italy, and Portugal, the percentage of holdings in the size classes of 50 hectares and above is almost negligible." (Table 3). France has a better distribution of holdings among various size categories, thus leaving Spain in between. Taking into account Hill's claims that an agricultural enterprise needs 150 to 200 hectares in order to take full advantage of the "available economies of size which modern production methods entail" [Hill 1984, p.8], it follows that conventional agriculture in the European Mediterranean region is disadvantaged when competing with other European and third countries. Stated otherwise by Larsen and Hansen, "while the major gains generally are realized for medium-sized and large farms, the data indicate that economies of size might not be fully realized for most countries by the largest farm types represented". Data from the 1980s for the ratio of total costs to total production value show that the cost share in the MECs was minimized for farm sizes greater than 44 hectares.

**TABLE 3 - AGRICULTURAL HOLDINGS BY SIZE CLASS OF THE AGRICULTURAL AREA (AA), 1993**

	< 5 ha (%)	5-20 ha (%)	20-50 ha (%)	50-100 ha (%)	> 100 ha (%)	Total (%)	AA by holding (ha)
Greece	76	21	2	0	0	100	4,3
Spain	58	27	8	4	3	100	17,9
France	28	23	26	17	8	100	35,1
Italy	77	17	4	1	1	100	5,9
Portugal	78	17	3	1	1	100	8,1
EU-12	59	23	11	5	3	100	16,4

Source: Calculated from data presented in EUROSTAT, Statistics in Focus, 1995-12

The composition of total agricultural production differs considerably between the Northern and the Mediterranean Member States of the European Union. The MECs, with the partial exception of France are large producers of the so-called Mediterranean products, either crop or livestock products, which are moderately supported by the CAP.

In Greece, Spain, and Portugal fruits and vegetables, a large category of Mediterranean products, contribute more than 20% to the total value of agricultural production (EUROSTAT: 1992 data, presented in Kathemerini). The share of fruits and vegetables in the Gross Agricultural Value of Portugal is 15%, whereas in France the share drops to 9%. With the exception of France, more than one third of the holdings in the MECs grow permanent crops (table 4). Moreover, the average size of a permanent crop growing farm is even half the size of the average holding in each MEC. Thus, small producers cultivate products with minimal support from the CAP. On the other hand, the cultivation of cereals is more concentrated in fewer and larger holdings. Especially in Spain and France, less than 5% of the total number of holdings occupy half of the arable land.

**TABLE 4 - LAND USE BY AGRICULTURAL HOLDINGS, 1993**

	Arable Land (%)		Permanent Pasture and Meadow (%)		Permanent Crops (%)		Woodland (%)	
	Holdings	Area	Holdings	Area	Holdings	Area	Holdings	Area
Greece	44	57	7	14	47	28	2	1
Spain	35	43	17	28	37	14	10	16
France	36	61	32	30	14	4	18	5
Italy	34	43	13	21	39	14	14	22
Portugal	35	47	8	19	36	16	21	18
EU-12	36	50	21	32	30	8	14	10

Source: Calculated from data presented in EUROSTAT, Statistics in Focus, 1995-12

With the exception of Spain and Italy, three to four out of five holdings in the MECs rear livestock. Nevertheless, the livestock composition differs among the MECs. Thus, in Greece although 7 in 10 livestock holdings rear sheep and goats, only 10% keep bovine animals, which supply products widely supported by the CAP. On the other hand, 65% of French and half of the Spanish livestock holdings rear bovine animals. Nevertheless, the French and Italian livestock holdings are much more specialized in bovine animals than the Spanish ones.

### III. AN ASSESSMENT OF THE IMPACT OF THE URUGUAY ROUND ON THE AGRICULTURAL SECTOR OF THE MEDITERRANEAN COUNTRIES

Since the agricultural output mix of most MECs consists mainly of products that are lightly supported by the CAP, the impact of trade liberalization on these products will not be severe. Nevertheless, the producers of these products should become competitive in the world markets, in order to enable themselves to remain in agriculture.

The producers who probably will suffer more from adjusting to the new international policy conditions will be those which have traditionally concentrated their output in heavily supported products, for example producers in France. As a consequence of the international policy reforms toward increased market orientation, the unit revenues will drop and farmers will leave agriculture. With reduced domestic intervention and less distorting effects in the world markets, relative prices will change, thus influencing both the patterns of production and trade. Production patterns will be affected more by the factors determining each country's relative costs and comparative advantage. Changes in the value added and in the traded quantities will determine the new trade balances and the foreign exchange revenues. Equally important, under increased market-orientation, consumer preferences will assume a new, significant role in determining the price levels and in affecting the production mix, the techniques of production, and the patterns of trade.

Nevertheless, France also has a potential to take better advantage of the economies of size. It is rather the rest of the MECs that should seek alternative strategies for sustainable agriculture. What is needed is not economic development, but sustainable rural development that would prevent the outmigration of young people, the land abandonment, and the environmental degradation [Merlo and Manente].

Whether effectuating dramatic or moderate changes in agriculture and in the rural society, the GATT's Final Act will serve as a catalyst in forcing the agricultural sectors of the MECs to face up to the circumstances of increasing competition in the world markets. In conventional agriculture, this translates into further mechanization, adoption of capital intensive techniques, higher unemployment in rural areas, more skewed distribution of income in agriculture. The MECs must find ways to adapt to the upcoming transitions as smoothly as possible. New strategies should be developed in order to accommodate the problems facing the large and small farmers alike.

What follows is a theoretical framework which examines the constraints and the possibilities for promoting structural adjustments in the sector of agriculture and in rural areas, in order to enable the rural society to confront the difficulties arising from an increasingly competitive world. The backbone of the analysis lies in the notion of sustainable development, which constitutes an integrated approach toward rural development.

## IV. THE LABOR MARKET AND CONDITIONS FOR STRUCTURAL ADJUSTMENT IN MEDITERRANEAN AGRICULTURE

### IV.1 THE MARKET AND DISTRIBUTION OF LABOR

Just as in every other sector of the economy, the demand for human capital and for labor depends on the Value of Marginal Product of labor (VMP) and is directly related to the price of the last unit produced and sold and to the productivity of the very last utilized unit of labor. On the other hand, the supply of labor is associated with the opportunity cost of labor, that is with the maximum return that labor could guarantee, if it were channeled into some other use. The value attached to leisure by individuals is also a determinant of labor supply.

Thus, by definition, actions and policy alternatives which bring about an increase either in the marginal productivity of labor or in the product price lead to higher demand for labor in agriculture. The marginal productivity of labor could be enhanced by actions and policy alternatives that a) expand the use of other means of production (i.e., capital and land), b) improve the technology applied, c) improve the quality of the other production factors by investing in physical capital (e.g., installations, machinery, etc.), in human capital (e.g., education, training, etc.), and in land (e.g., land reclamation projects, etc.). On the other hand, the unit price of the product could be raised as a result of a) improvements in the quality of the product, b) increases in the value added, c) adjusting production or marketing services to consumer preferences (e.g., the products's type and characteristics, the production techniques, handling, packaging, storing, processing, and distribution).

Furthermore, labor exits agriculture, when employment opportunities outside agriculture exist. Thus, a lower supply of labor in agriculture will result from increased marginal productivity of labor in off-farm employment or from a relative rise in the price of non-agricultural products.

Consequently, whether in space (i.e. between urban centers and rural areas) or between employment activities (i.e. within or outside the agricultural sector), the distribution of labor is determined by factors relating to differences in remuneration and in living conditions. Wage differentials reflect differences in the marginal income of labor and differences in the values attached to the additional leisure time earned. Any policy instruments affecting the above factors constitute incentives or disincentives to the geographic or professional mobility of labor.

### IV.2 THE LABOR MARKET AND STRUCTURAL CHANGES IN THE AGRICULTURAL SECTOR

Structural changes in agriculture could be classified in four categories, according to their impact on the labor market, as follows:

#### *a) Structural Changes that Raise the Demand for Labor in Agriculture*

Such an increase in demand is brought about when conditions that increase the marginal productivity of labor in agriculture or raise the prices of agricultural products prevail. This situation by no means reflects the current conditions in Mediterranean agriculture. Nevertheless, an increase in demand for labor in agriculture would increase employment, raise wages and income, and would establish a sufficient condition for economic progress in agriculture. Thus, this type of structural change should constitute policy objectives.

#### *b) Structural Changes that Reduce the Demand for Labor in Agriculture*

Such a development is attributed to technological improvements in agriculture (i.e., to mechanization and substitution of labor by capital) or to increasing competition (e.g. CAP reform - GATT). This situation characterizes the Mediterranean European Countries today.

Lowered demand for labor in agriculture results in reduced employment, wages, and incomes in the sector. Therefore, such structural changes should be avoided, before is secured in the labor demanded by the non-agricultural sectors of the rural economy an increase. In addition, this type of structural change necessitates a) increases in the marginal productivity of labor in agriculture, and especially in the production of commodities with falling prices, and b) the adjustment of the production process in favor of products and methods which can guarantee high prices.

Challenges arising from increased competition and technological improvements cannot be confronted without innovation, novelty, flexibility, and continuous adjustments to changes. Consequently, it is necessary that the efforts to attain the goals be entrusted primarily to young farmers. The success of the outcome will depend on securing access to information and training, land and capital for young farmers. On the other hand, the creation of employment possibilities in the non-agricultural sectors of the rural economy is fundamental to the viability of small-sized family farms and the vitality of rural communities.

*c) Structural Changes that Cause Increase in the Supply of Labor in the Agricultural Sector*

An increase in the labor supplied in the agricultural sector could be the outcome of increases in the unemployment level in the non-agricultural sector or of the influx of migrant workers. Problems arise when these developments are not complemented by the creation of the conditions necessary for the absorption of the additional labor force in the non-agricultural sectors of the rural economy.

Increased labor supply in agriculture is a frequently observed contemporary phenomenon in the Mediterranean European Countries. The results are higher employment levels, but lower wages in agriculture. Thus, the final impact of this type of structural change on income and economic progress is dubious; a positive outcome may take place only if demand in the agricultural sector suffices to absorb a large quantity of labor at current prices (that is if demand is elastic or if there is high demand for relatively unskilled labor). This condition, however, does not depict the current situation in agriculture, and therefore such a type of change should be avoided.

*d) Structural Changes that Reduce the Supply of Labor in the Agricultural Sector*

A decrease in the supply of labor in the agricultural sector could be the result of a rise in employment in non-agricultural sectors. It could also be the outcome of a reduction of the rural population, due to immigration, to internal migration, or even to lower birth rates. Such a decrease would reduce employment but would raise wages in agriculture, thus leaving the overall impact on agricultural income and economic progress ambiguous.

A positive net result can be attained if the non-agricultural sector in the areas of destination has the capacity to absorb the labor force of agricultural origin. The more skilled the labor demanded by the non-agricultural sectors, the higher will be the increase in non-agricultural income. Positive results will also occur if the labor exiting agriculture was previously occupied in agricultural specialized activities (inelastic demand). In this case, the income of those remaining employed in agriculture will increase. In general, the positive outcome will be reinforced if the above mentioned conditions were supplemented by actions that cause a rise in the demand for labor in agriculture.

The perspective of continuing reductions in the supply of labor in the agricultural sector necessitates the establishment of the conditions necessary for preventing depopulation in rural areas. Thus, employment opportunities in the non-agricultural sectors of the rural economies should be increased and the living conditions in rural areas (i.e., quality of work-time and leisure) should be improved.

The statements above specify the necessary and sufficient conditions for economic progress in rural areas, as measured by increases in the per capita income and in employment levels. The implementation of appropriate policy measures in the labor market could guarantee such desirable conditions.

#### **IV.3 POLICY GUIDELINES FOR THE DEVELOPMENT OF RURAL AREAS IN THE MEDITERRANEAN EUROPEAN COUNTRIES**

The necessary and sufficient conditions for the development of rural areas in the Mediterranean European Countries can be summarized as follows: i) In the agricultural sector, an increase in the demand for labor should be intended by means of an increase of the marginal productivity of labor and a shift of production in favor of high value-added products; ii) In the non-agricultural sectors, policies should aim at an increase in the demand for labor, by securing the same intermediate objectives. At the same time, in rural areas, the population should be retained and living conditions should be improved. It is imperative that the problem of unemployment in rural areas be dealt with in the context of a global, integrated policy for rural development. The nature of the structural changes taking place in rural areas weaken the role of sectoral policies in general, and of agricultural policy (microeconomic) in particular.

As shown earlier in this report, the rural space throughout Southern Europe demonstrates heterogeneity and therefore requires the adjustment of policies to the specific characteristics of each region. Scientific and Research Institutions should specify policy proposals, taking into account all facts at the national, regional, and local levels. The effectiveness of public organizations and institutions at any level in providing consultation and technological know-how is a decisive factor for the development of alternative enterprises.

Rural development presupposes the reduction of inequalities in the distribution of agricultural income. This can be achieved with the adjustment of sectoral policies, with policies for rural development, and with an appropriate macroeconomic environment.

Thus, in agriculture and in other sectors of the economy, policy goals should aim at an increased use of the means of production (e.g. capital), improvements in the technology applied, quality enhancement for all factors of production, achieved by investing in human capital, physical capital, and land, improved product quality, increased value added for the produced output, and at supplying products ranking high in consumer preferences.

Policy goals should also aim at improving the living conditions and at decreasing the inequalities in the distribution of agricultural income. The latter could be pursued mainly a) by enabling the farm family members to extract the value added of their own labor as a consequence of engaging in on-farm agricultural or non-agricultural activities and b) by securing access to improved means of production (training programs, small scale irrigation networks, etc.) for small agricultural holdings.

Policy instruments utilized so far may not be adequate to resolve the problems of rural development. For instance, an income transfer policy, targeted in favor of small agricultural holdings and lower income groups in agriculture, although legitimate and socially justified, would not suffice to reduce concentration in the agricultural sector and to raise labor productivity. Moreover, conventional agricultural activities are no more in a position to guarantee employment and income for most citizens in rural areas.

Better opportunities for sustainable rural development lie in the adoption and creation of alternative activities. Such activities require restructuring of the holding and reorganization and rearrangement of the means of production (land, capital, labor and managerial skills). The objective is the on-farm production of a mixed output consisting of new products and services, including those of non-agricultural nature. Thus, the family labor force remains employed on the family farm and receives the value added attributed to the resource it supplies, whereas in the case usually observed of multiple job holding or pluriactivity, the value added by the off-farm family labor is extracted by the employer (and owner).

In general, there are three **types of alternative activities** that could be adopted by farmers;

- I. Production of crop and livestock products which are new to a specific area, non-conventional in nature, or non-conventional in their intended use,
- II. Production and on-farm marketing of labor intensive, agricultural and non-agricultural products and services (e.g. agro-tourism, agro-manufacturing, on-farm processing of agricultural products by the farm family members). Any activity which increases the value added, whether by processing or by on-farm sales belongs in this category,
- III. Adoption of labor intensive techniques and production. This implies development of extensive production systems, reduction in the use of capital and especially of all industrial means of production (fertilizers, chemicals, etc.), production of organic, ecological products, and in general environmentally friendly management of agricultural holdings.

In addition, policies for the development of rural areas should create a favorable environment for taking advantage of the opportunities currently available, which are sometimes different from those in the past. When rural communities insist on supporting economic activities which are currently shrinking, such as the production of low value added products or the production of products in structural surplus, they are bound to face decay and unemployment. Policies should ease the continuous access of rural communities to information about changes in international trends, in order to correct the lack of flexibility and adjustability in the agricultural sector.

Finally, policies should acknowledge and appreciate the direct positive relationship that exists between well preserved and maintained small-rural communities and the quality of the natural environment, the upkeep of rural and traditional lifestyles and culture. Society, which enjoys the resulting benefits, ought to undertake the cost of strengthening this relationship, by compensating the citizens in rural areas for the services they provide.

#### **IV.4 AGRICULTURE AND THE MACROECONOMIC ENVIRONMENT**

The macroeconomic environment, determined by fiscal, monetary, and exchange rate policies, strongly affects the development process in the long-term. Since macroeconomic policy influences employment and the distribution of income, any macroeconomic adjustment has a substantial impact on agriculture. More specifically, fiscal and monetary policies have a direct effect on the remuneration of the means of production and on product prices, and therefore influence real wages, employment, the inflation rate, the exchange rate, the interest rates (cost of investment), imports and exports, and the agro-food system in general.

Macroeconomic distortions, such as those caused by overvalued exchange rates or interest rate subsidies, hinder agricultural development and have a major impact on income distribution. Thus, a negative macroeconomic environment may erode and undermine the best possible sectoral, microeconomic measures in agriculture.

## V - POLICY GOAL PRIORITIES AND THE MEANS TOWARD THE DEVELOPMENT OF RURAL AREAS IN THE MECS

Based on the analysis presented above, policy measures intended to enhance development in the Mediterranean European Rural Areas should primarily, although not exclusively, aim at :

1. Encouraging the installation of **young farmers** (under 40 years of age) on conventional and non-conventional agricultural holdings which are in need of innovations, specialized labor, and immediate adjustment to more competitive and market-oriented agricultural practices.
2. Encouraging **young single women** to undertake labor intensive non-agricultural activities (handicrafts, weaving, on-farm processing, agro-tourism, etc.). This action is designed to increase employment in the non-agricultural sector and to enhance living conditions in rural areas.
3. Encouraging **well-educated inhabitants of the urban centers** to install in rural areas and either to assume specialized, professional positions in the non-agricultural rural sectors or to establish alternative agricultural enterprises or labor intensive non-agricultural activities. This action is designed mainly to enhance living conditions in the countryside and secondarily to increase employment. It is a particularly important goal, because it aims not only at securing a high level type of services in rural areas, but also, and most of all, at gradually eliminating society's negative image of the rural way of life.
4. Supporting **small family agricultural holdings** in engaging in on-farm alternative activities. This action is designed to create and to maintain sustainable agricultural holdings, to enhance the living conditions, and to preserve the environment.

The means available for achieving the above mentioned goals include **Community** and **National measures** of structural character. The Mediterranean European Member States should take full advantage of the Community provisions comprising the Common Structural Policy along with the structural measures accompanying the reformed CAP. On the other hand, national measures (incentives and disincentives) should supplement the Common Structural Policy in order to confront more effectively the problems of skewed income distribution and of the distortions effected in the labor market by the Common Agricultural Policy. Unless specific actions are devoted in eliminating such inequalities, the benefits of agricultural policy will be channeled to agricultural holdings of large size, thus intensifying the problem of unemployment.

Consequently:

1. For the category of young farmers, better living conditions and access to capital, know-how, information and land have to be secured. Farm management practices need to be updated and adjusted to current needs. Special emphasis should be given to offering information about new possibilities available to young farmers, professional training and incentives for installation. Full exploitation of measures related to early retirement and Community Initiatives, such as LEADER, are also necessary. Structural Funds available for less-favored areas should finance activities which guarantee an integrated and spherical approach to rural development.
2. The existing common tools for the implementation of the Common Structural Policy could be supplemented by additional measures. These include: support for training before the establishment of the farm business, encouragement of alternative farming installations, housing loans especially to young couples who decide to start up an agricultural enterprise, targeted tax exemptions, priority in the redistribution of production quotas of land, special grants for the establishment of new commercial enterprises by young farmers.
3. For the category of young female farmers, special treatment should also be given --as long as they invest in farming -- for agro-manufacturing initiatives, agro-tourism, and processing on the farm. National measures for facilitating the installation of this category include relaxed tax measures, as well as advertising and information programs regarding the facilities for tourism in rural areas offered.
4. For the category of well-educated or especially skilled young urban dwellers, the national management of structural policies should secure access to training programs for the promotion of alternative farm activities and to the provisions of the Common Structural Policy and Community Initiatives.
5. For the category of small agricultural holdings, it is the structural accompanying measures of CAP reform that provide a very useful policy framework for the promotion of differentiated and diversified agricultural activities. The relevant measures provided should adjust to specific conditions and peculiarities of farms and regions.

In addition to the Community Structural Policies, the following **national** measures and objectives could be promoted in order to correct inequalities in income distribution and to foster employment.

1. Redistribution of land. If properly implemented, this measure may lead to the absorption of excess labor, by securing economies of scale. Taxation of agricultural land would lead to a more rational allocation of the means of production, because it would trigger an increase in the supply of land for agricultural use. As a result, labor and capital productivity and employment would increase, and income inequalities will be reduced.
2. Equivalent access for remote low income farmers to incentives for using improved seed varieties and industrial inputs.
3. Balanced and rational promotion of mechanization for every category of farm size (e.g. by means of incentives for the collective use of heavy mechanical equipment). An across-the-board subsidization of the cost of capital should be avoided, because it would lead to over-mechanization.
4. Integrated irrigation networks, serving agricultural holdings irrespective of their size and income. Large irrigation projects should be supplemented by a wide small scale irrigation network that would serve smaller farms as well.
5. Promotion of educational programs and of technical and vocational training for the diffusion of knowledge related to alternative farming systems.
6. Effective intervention on the age structure of the agricultural population.
7. Effective diffusion of information and consulting services of high quality.
8. Incentives of a fiscal or other nature, aiming at encouraging investment, reducing the cost of production, promoting alternative enterprises.
9. Promoting new patterns of development based on "quality" criteria.
10. Offering incentives for preserving nature and the environment.

Finally, some **national measures** will be **intersectoral** in nature and thus would require interministerial consent. Thus, it is important that permanent or ad hoc interministerial committees be formed in order to confront issues of rural development. Such committees could examine the possibility of the following:

1. Establishing priority rural zones. The committee could then decide on the target groups and on the nature of preferential treatment of financial charges by zone.
2. Promoting new activities for better management of the rural space. The committee should decide on the type of limitations and constraints that should be removed and on the alleviation of the financial burden facing some categories of entrepreneurs. The encouragement of adopting on-farm activities presupposes a thorough understanding of the pluriactivity phenomenon and of the particularities that rural inhabitants involved face.
3. Improving the effectiveness of public institutions/organizations. This is an objective that requires good coordination of the participating members in the interministerial committee. It is proposed that the establishment of "information centers" for rural area inhabitants be carefully examined. These centers will have the form of information "counters" which would operate as an intermediary communication joint between the administration and the users. In addition, it is proposed that multiyear contracts with the local administration be signed for the development of educational services in the rural space.

## REFERENCES

- CHAMBRES D' AGRICULTURE, Assemblée Permanente, "Enjeux de la Politique Agricole", Session de l' APCA: Capacités d'Adaptation de l' Agriculture Française. Décembre 1990.
- COMITÉ INTERMINISTÉRIEL POUR LE DÉVELOPPEMENT ET L' AMÉNAGEMENT RURAL (CIDAR), "25 Mesures pour le Monde Rural". Ministère de l'Agriculture et de la Pêche. République Française, Juin 1994.
- CLOUT, H., *A Rural Policy for the EEC?*. The Methuen EEC Series. Methuen and Co., New York, 1984.
- DAMIANOS D. and M. DEMOUSSIS. "Consumption of Mediterranean Fruits and Vegetables: Outlook and Policy Implications", *Options Méditerranéennes*, Series A, no. 19, pp. 67-72, 1992.
- DAMIANOS D., M. DEMOUSSIS, E. DIMARA, V. FISSAMBER, A. KONIOTAKI, and D. SKURAS, "The Contribution of Alternative Farming Systems to the Future Comparative Advantage of Farms in Lagging Regions of the Community", Final Report for the West Central Region of Greece. Working Paper 14. University of Patras, June 1994.
- DAMIANOS D., M. DEMOUSSIS, and C. KASIMIS, "The Empirical Dimension of Multiple Job Holding Agriculture in Greece", *Sociologia Ruralis*, vol. XXXI, no. 1, pp. 37-47, 1991.
- DAMIANOS D., M. DEMOUSSIS, C. KASIMIS, and A. MOISIDIS, *Pluriactivity in Agriculture and Development Policy in Greece*. Foundation of Mediterranean Studies. Athens, 1994.
- DEMOUSSIS M., "CAP Reform and Greek Agriculture: Facilitating the Adjustment Process". Unpublished Paper. Department of Economics, University of Patras, July 1995.
- EUROPEAN COMMISSION, "EC Agricultural Policy for the 21st Century", *European Economy*, Reports and Studies, no. 4, 1994.
- EUROPEAN COMMISSION, *The Agricultural Situation in the European Union*, 1994 Report. Brussels - Luxembourg, 1995.
- EUROSTAT, "1993 Survey on the Structures of Agricultural Holdings", *Statistics in Focus. Agriculture, Forestry, and Fisheries*. Luxembourg, 1995.
- FROHBERG K., "Assessment of the Effects of the Reform of the Common Agricultural Policy on Labour Income and Outflow", in European Commission's "The Economics of the Common Agricultural Policy", *European Economy*, Reports and Studies, no. 5, 1994.
- GUYOMARD H. and L. - P. MAHÉ, "L' agriculture au GATT et la Réforme de la PAC: La Fin de l' Exception et la Réforme Inachevée", in European Commission's "The Economics of the Common Agricultural Policy", *European Economy*, Reports and Studies, no. 5, 1994.
- HEWITT J., "GATT and the Reform of Agricultural Policies in the OECD", *Agra Europe: Outlook 94*, London, 1994.
- LARSEN A. and J. HANSEN, "Agricultural support and structural development", in European Commission's "The Economics of the Common Agricultural Policy", *European Economy*, Reports and Studies, no. 5, 1994.
- MERLO M. and M. MANENTE, "Consequences of common agricultural policy for rural development and the environment", in European Commission's "The Economics of the Common Agricultural Policy", *European Economy*, Reports and Studies, no. 5, 1994.
- MUNASINGHE M., "The Economist's Approach to Sustainable Development", *Finance and Development*. World Bank. December 1993.
- POMFRET R., *Mediterranean Policy of the European Community: A study of Discrimination in Trade*. Trade Policy Research Centre. MacMillan. London, 1986.
- SARRIS A. H., "Consequences of the proposed common agricultural policy reform for the southern part of the European Community", in European Commission's "The Economics of the Common Agricultural Policy", *European Economy*, Reports and Studies, no. 5, 1994.