PROCEEDINGS OF THE TENTH INTERNATIONAL CONFERENCE OF AGRICULTURAL ECONOMISTS

HELD AT THE LALITHA MAHAL, MYSORE INDIA 24 AUGUST – 3 SEPTEMBER 1958

AGRICULTURE AND ITS TERMS OF TRADE

LONDON OXFORD UNIVERSITY PRESS
NEW YORK TORONTO 1960
BY agricultural support I understand some system of special assistance to farmers to raise the general level of their incomes and probably though not invariably the level of farm output as well, which is operated for instance by means of tariffs, import quotas, or subsidies. By subsidies I mean not only subsidies on farm output but some State-aided schemes of constructional development, especially in the under-developed countries, and grants for agricultural credit, agricultural co-operation, and rural community projects. Mention must also be made of monopolies, State trading, managed markets, and tax reliefs. At the risk of parting company from my American friends, I must decline to recognize as agricultural support the use of public funds for setting up farmers’ wives with refrigerators and washing machines.

Of the more orthodox means of support, tariffs are almost certainly the most ubiquitous and among the least open to criticism. In those countries which are signatories to the General Agreement on Tariffs and Trade, and perhaps various others, tariffs are normally the subject of bilateral or multilateral bargaining. To gain consent to impose or increase a tariff, an offer of freer entry on something else must be given, or at least some good reason must be furnished. This process of dealing out the cards face upwards is, I think, most valuable and salutary. There is also about tariffs a compatibility with the ‘open system’ of trade and economics, and an absence of concealment, that makes them, so long as they are of moderate dimensions, preferable to many other alternatives.

By contrast, quotas or other quantitative limitations on imports when used primarily for protective purposes, together with the allocation of selling areas and other devices of so-called managed markets seem to me to have only the virtues of their great efficiency as protective measures. But it is the efficiency of a bull in a china shop.

State trading in a country which believes in collectivism must be regarded with respect. It is part of a system regarded as good for its own sake. But there are many instances of State trading simply because this method—as one form of the ‘managed market’—makes it particularly easy to exclude agricultural imports. The State trading organization asserts that it can best place the bulk of its orders
internally, and the onus then falls on other countries to prove that they have been victimized. I must exclude from these remarks, however, some of the State-trading and similar organizations—for instance for coffee in Brazil or cocoa in Ghana—which exist—to bring stability into particularly volatile markets on which the economies of those countries depend, or to raise the standards of quality of exported produce.

Private monopolies to raise farm prices at the expense of the consumer will have few friends in this Conference. But there are many examples of semi-private, semi-public monopolies created to organize the internal trade in an agricultural product such as milk, and such monopolies can improve producers’ returns either by discouraging imports or more directly by limiting or diverting supplies. Some of these monopolies were created because of a lack of organization, sometimes even chaos, in the previous state of the market, or because of the prior existence of buyers’ monopolies.

Direct subsidies to farmers on their output, or subsidies paid them at one remove through marketing organizations or State-created commodity corporations, have extended sufficiently to become nowadays a major form of support. No form of support can be more open and apparent; the cost becomes known both to its beneficiaries and to the rest of the community. But it can impose a severe strain on national finances and involve considerable administrative expense; and can even be attacked by the farmers under two heads: both as appearing to bracket them with claimants for poor relief, and as exposing them to the risks of economy drives.

At two points I want to widen my definition of agricultural supports beyond the normal meaning of those words. These additions are subsidies and tax reliefs not wholly intended for the benefit of agriculture. Subsidies of this kind are more than mere special cases, of interest only to the connoisseur, because in practice many countries are undertaking major rural reconstruction schemes, from which the farmers undoubtedly benefit, but which also benefit whole regions. Major works of irrigation in the United States, of flood control in China, and of road and housing construction in southern Italy, no doubt help the existing and future agricultural populations of the particular areas, but in most instances have been planned more generally as pieces of nation-building, intended to revitalize entire regions and make a significant addition to the national income. How such expenditures are classified is of no great importance in itself. But their value to agricultural industry is not to be underrated simply because they are not exclusively for agriculture. Perhaps I should give
some examples, particularly from Asia. Having to select, I have selected chiefly on the basis of my probable ability to pronounce the names: I am not of course qualified to judge their precise importance. These examples include the noble Damodar project in Bihar and West Bengal (irrigation, flood control, and power), the Taunsa Barrage in Pakistan, the Djatiluhur dam north of Bandung in Indonesia, and the Kabo and Alaungsithu dams in Burma. It is also good reading that in Ceylon, for instance, agriculture and irrigation account for over one-third of the Government's investment budget. Agricultural economists from all the Asian countries may like to know that particulars of these projects are readily available in Western countries and are closely studied. Apart from their great public importance, these constructional works can often help agriculture far more than anything done directly on the farms. I once lived in a maize-growing country where there were distinct maize belts fifty miles wide, twenty-five miles each side of the railway line, twenty-five miles being as much as an ox-wagon could manage in a day. The development of agriculture in such a country—and there are many like it—must start with the means of transport—railways, roads, harbours, and port facilities—without which what are ordinarily thought of as agricultural supports could well go to waste. It would be a curious definition of support that excluded what can be the most valuable form.

To turn for a moment to a less pleasant subject, agricultural support often takes the form of tax reliefs. When farmers in any country are exempted as a class from a tax of general application, most of us have little hesitation in classifying that as a piece of support. In practice few countries expose farmers to the full force of income taxes, and that being so, income tax exemption is the major example of what I mean. The exemption of farmers from petrol taxes is another example, widespread in Europe. But many countries also discriminate in favour of farmers in more subtle ways. For example, it is by no means exceptional for relief to be given indirectly by the particular choice that is made of articles or operations to be taxed, or not taxed, so that in practice even if not in form, farmers receive substantial help in this way. Again, where a tax is imposed, there may be a preferential rate for farmers or preferential arrangements for assessment and collection. I mention these matters without relish. Tax reliefs can rarely be more effective than equivalent assistance given to farmers through their prices, but are liable to hide the cost of what is being done both from the farmers and the public, to be unfair as between one farmer and another, and even to create a distasteful climate of political manoeuvre.
By defining agricultural supports so widely, I have perhaps made more difficult my next task of discussing the reasons for them. This is made difficult in any case by the wide range of circumstances of some sixty or seventy agricultural countries spread about the globe in many different physical climates.

In the less-developed countries, comprising much of Asia, Africa, and Central and South America, agricultural supports are given primarily to raise production and productivity in farming, so as not only to lift farmers' incomes to a more tolerable level but, more generally, to increase food consumption and the national income. These are objectives made compelling by the over-population, rural backwardness, and inefficient farming practices so often found. Agricultural supports in one form or another help to break through the barriers of outworn farming and social customs, illiteracy, inadequate communications, and such local evils as chronic farm indebtedness. Although many other measures of reform are being undertaken as well, injections of money either as income support or as capital are also required. It is not taken to be an objection to these forms of support that while the cost may partly be met by loans or gifts from abroad, part must also fall on the local consumer or taxpayer. It is assumed that in these low income countries the townsman usually does relatively well, and that in any case it is to his long-term interest to be served by a more efficient agriculture. Some of this applies also to Europe and North America, but the agricultural support measures used in most European countries, and in the United States and Canada, have other objectives as well. North America, for instance, has been suffering from problems of agricultural over-production rather than under-production. The growth of incomes per head in already prosperous communities means that a diminishing share of the national income is likely to be spent on food; this coupled with the technical progressiveness of North American farmers has meant that production is usually bumping up against and even breaking through the ceiling of market outlets. These difficulties have been aggravated by the great expansion of farm output that was deliberately induced in North America during the war, as a major war effort, and the subsequent falling away of effective foreign demand. It is understandable, therefore, that the American public should acquiesce in the support measures used in the United States, while hoping no doubt that the size of the agricultural industry will gradually fall to a more manageable level. Although the number of farms has continued to decline, there has not in fact been any reduction in output.
One reason for agricultural support that used to be of great general significance has seemed since the war to have chiefly an American setting. This is the sustaining of the farmers' purchasing power as an anticyclical measure. Farmers have always tended to maintain their output in a depression, even while taking sharp cuts in prices, while industrialists have preferred to keep up prices even though at the expense of a major loss of output. In those circumstances the injection of purchasing power into agriculture can be the weapon of choice for reversing that sequence of events.

In Europe, or strictly speaking those western European countries that are food importers as well as exporters, the motives for agricultural support have been very mixed. Several of these countries have long histories of agrarian protectionism. This seems to be largely social in origin since competition is excluded not only because it would be painful but because it could be met only by major changes in the social structure. The particular value attached to the peasant way of life in France, Western Germany, and Italy, and the determination to protect it, will be well known. In France, moreover, the state of the balance of payments has also demanded substantial measures of agricultural support from time to time. My own country, the United Kingdom, to some extent falls into this group. Largely as a legacy of the war, it has experienced chronic balance of payments difficulties that have made it necessary to give more agricultural support, mainly by the payment subsidies on output, than would otherwise have been necessary. Also, the United Kingdom since 1939 has made it a major objective of social policy to achieve greater equality of incomes. The incomes of farmers and farmworkers had previously been among the lowest, and it has therefore been an object of policy not merely to sustain them against competition from abroad, but to raise them to their present level which is a good deal higher than pre-war. I should like to amplify what I have said about the balance of payments lest it may seem just a convenient phrase, and say something about the terms of trade between agriculture and industry. The terms of trade between the imports and exports of the United Kingdom are a good enough indicator of this, and their development since the war can be shown thus:

United Kingdom Terms of Trade

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<th>Year</th>
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<td>1935-8</td>
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<td>101</td>
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<td>1957</td>
<td>103</td>
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<tr>
<td>1958 (1st qr.)</td>
<td>97</td>
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Agricultural Support Measures

This table shows the decline since 1955, which is currently causing a set-back in the prosperity of some primary producing countries. But I want to point chiefly to the contrast between pre-war and post-war and to the levels reached in the early nineteen-fifties. These indicate better by figures than I can do in words, how compelling has been the need of food importing countries to develop further their own production by means of supports.

My next group of countries consists of those that are primarily agricultural exporters, such as Denmark, New Zealand, Pakistan, Ceylon, and a number of the Latin-American countries. These must find it difficult to operate any system of agricultural support. It is particularly awkward for countries that depend on only one or two products for the bulk of their export earnings, e.g. Cuba, where sugar accounts for four-fifths of the exports, or Brazil and Colombia where coffee provides two-thirds of the total. The cost of support cannot easily be passed on to consumers abroad, except perhaps as a side-effect of stock holding or regulating the timing of export sales. Since the home consumer takes only a small part of the total food or fibre produced, he too is not in a position to contribute very much. It is of course an understandable complaint of these countries, that having themselves little means of supporting agriculture, they have to compete with other countries which can throw the cost of support on to their consumers or taxpayers, and that they thus have to bear the full brunt of adverse changes in the terms of trade.

I must also mention the Soviet Union, the Peoples’ Republic of China, and the countries associated with them, even if only to apologize that I have little knowledge of any support policies they pursue, because information is difficult to obtain. Nevertheless, it is common knowledge that the Soviet Union, for instance, has put a major effort into the development of virgin lands, and presumably this development has not in its early years been able to pay its way and by itself provide an adequate living to the workers engaged.

I have left for separate treatment the benefit that agricultural support policies may bring to consumers. In the over-populated and other under-developed countries it seems likely that much of what is being done for agriculture is really aimed at improving the standard of food consumption at one remove. Any benefits that the producers gain apart from a better diet is relatively subsidiary. But in countries that already have adequate diets the motive to improve them tends to be of lesser importance. Indeed it is a noticeable feature of agricultural support systems used in western Europe, though not the United Kingdom, that most of the cost seems to be thrown on the consumer,
through the use of tariffs, import quotas, and monopolies as the main instruments. The United States also seems to place much of the cost on the consumer. We are so much aware of the huge bills facing the American taxpayer—amounts even exceeding the entire public spending of a smaller country—that perhaps we may overlook the fact that support on the American pattern tends to raise the market price to the support level. The subsequent burden on the taxpayer is then incurred primarily in meeting losses on the disposal of produce bought at the support level.

The United Kingdom, rather uniquely among the high consumption countries, has adopted a system that places the bulk of the cost of agricultural support on the taxpayer. This is called the deficiency payment system and consists of making good by direct payments to farmers the difference between the price realized on the market and a predetermined price assured to them in advance. It leaves the consumer free to buy most foods at world prices, is consistent with an open market, and pretty well avoids all encumbrances either to internal or external trade. This method could not, however, be adopted generally. It is essentially the system for a fairly wealthy industrial country which, wanting to support its agriculture, has only a relatively small agriculture to support. If the agricultural sector were proportionately much larger than in the United Kingdom (5 per cent.), the subsidy system would be too expensive to the taxpayer; and if agriculture were the predominant industry the system would both be prohibitive in cost and virtually pointless.

So far I have discussed what the consumer is intended to get and can be seen to be getting. But he may in practice get rather more. This springs from the fact that if a number of countries are competing together on the world market for food, and each is subsidizing its farmers, quite simple economic theory teaches us that only in an extreme case will the farmers be likely to retain the whole of the subsidy for ever, because its effect will probably be to raise the volume of output entering world trade. If the supply is elastic, but demand is less so, then an over-spill of subsidy to the consumer will be almost certain. This model of events, although over-simplified, is not I think a bad description of world markets in grain and dairy products at the present time. I myself come from a country which has been experiencing butter prices that have been embarrassingly low. Competitive subsidization of butter in the form of dumping in the United Kingdom has recently even called for political action, which may induce some of the supplying countries to enlarge their own internal markets for butter.
Where tariffs are the main means of farm support the consumers’ indirect benefit may not be apparent. But a lot depends here on which group of consumers one means. For example so many sugar-producing countries protect their production that the free market price of sugar has been much reduced to the benefit of consumers in all the other countries. More generally, to the extent that tariffs and even quotas raise the level of world agricultural output, they are likely in the end to benefit consumers somewhere. I would not like to be too certain at whose expense. Probably it is to some extent at the taxpayers’. Where the State accepts a residuary responsibility for farmers’ incomes when world prices are bid down by competitive support, there will be some subsidization of consumer by taxpayer. But in the main the cost corresponding to the consumer’s gain will be the real cost to the world’s farmers of the extra resources, including their own labour, that they put into an artificially induced higher level of production. Some of these may be scarce resources that have to be diverted to food consumption from other things. But when, as in many of the poorer countries, higher food consumption is the over-riding need and the farmers have been chronically under-employed, the process as a whole may be highly beneficial. The farmers too will usually get something out of it in the form of more income, but of course it will be more income for more work.

It would be interesting to speculate on the extent to which these secondary effects, if they were fully appreciated, would be considered desirable. The overspill into the consumers’ lap could no doubt be regarded as a leakage of what was meant for the world’s farmers. But in half the world the producers are the consumers too, and the other half of the producers are, after all, not only producers but also trustees for the consumers.

These passages relate to fairly long-term effects, ten years or so, to give time for production to respond to supports. Over such periods, or better still over even longer ones, the agricultural supports must become absorbed into the normal supply price of farm produce—the supply price in the sense that that is the price, including support, at which farmers will be willing to stay in business. Various studies have been made of these supply prices, including a valuable recent one by my compatriot, J. R. Bellerby. He has found that the main determinants of the ratios of supply price in farming and in other occupations are primarily the social, occupational, and physical impediments to mobility, which prevent the equalization of incomes by the transfer of people from agriculture to other occupations.

Income ratios so determined are not likely to be altered much by the existence of agricultural supports; and the longer the period considered, the more the ultimate beneficiary of what is being done under the name of agricultural support is likely to be the consumer.

Although part at least of the advantages of support to the farmers may become illusory in the long run, there may nevertheless be substantial short run benefits, equal to anything up to 50 per cent. of market price. The justification of these, in terms of the relative claims of the farmers compared with the rest of the population, needs more discussion than I have so far given it.

The justification for supports is, I think, strongest in those countries that have in any case a large unsatisfied demand for food and low calorie intakes. In theory the best way to help those consumers might be measures directly aimed at raising their consumption, such as organizing at public expense the provision of cheap supplies of particular foods. But this could be well nigh impossible to administer. In any case unless much of the money were to work its way back to producers, and thus induce an increase in production, the consumers would not necessarily be better off in terms of food. Thus the support offered to the producer in the first place can be a good enough way of helping the consumer in the end. But in countries in which consumers are already well supplied, the giving of support to farmers seems to invite the question: why the farmers? Why not any other class in the community whose incomes are relatively low? Some countries have the answer to this in the difficulties of their balance of payments, and that answer may have to be accepted. But it is more difficult to accept answers that in the end boil down to the proposition that farming is a good way of life. That may be perfectly true. But the advantages that one country confers on its farmers may be at the expense of farmers in another, who in social terms may be equally deserving. Thus while the social arguments may have to be accepted as political necessities, and some of them may be valid in their own right, we are justified, I think, as economists in viewing most of them with some suspicion.

Criticism has been made of the effects of agricultural support on the efficiency of farming. Support, it is held, may perpetuate an unsatisfactory structure of the industry, encourage individual farmers to resist change in their methods, and generally weaken morale. There is a sufficient case here to need answering. Farmers cannot expect wholly to resist the temptation of resting on their laurels to which every protected class is exposed. There is much structural weakness in European agriculture, including at some points British
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agriculture, which comes from being insulated from competition. If support in one form or another assures adequate incomes, governments will find less reason to insist on, and the farmers more reason to resist, uncomfortable or politically awkward changes. In the case best known to me—of my own country—one of the most progressive periods of our agricultural history followed the severe competition in grain and meat caused by the opening up of the prairies of North America and the development of refrigerated shipping. Our farmers met the challenge partly by improvements of method in detail and partly by switching to liquid milk, eggs, bacon, and horticultural products. Denmark passed through a similar stage of evolution at much the same time and for similar reasons, and is now able to compete with the world. Heavy protection during those periods would, quite likely, have retarded those adjustments, which although painful proved absolutely necessary.

Fortunately there is another side of this medal. Under some conditions support can be consistent with and even promote efficiency. The American farmer is well supported, but is probably the most progressive in the world, and each year improves on an already high standard by displaying an amazing capacity to learn and to work. It is even a current complaint in the United States that support programmes are constantly in danger of collapsing because the farmers produce more than has been budgeted for. I do not sufficiently know the sequence of cause and effect in the United States to describe it. But my own country offers some interesting instances. We have found, for example, that to put more money into our farmers’ hands has led almost all of them greatly to increase their investment in livestock and machinery and their farm equipment generally. Some of this has been for the increase of output and much for the saving of labour. The combined effect has been substantial increase in output per man year, at a rate of about 4 per cent. per annum for many years, which is above the average for the economy as a whole. This has been supported and aided by a wide range of research, advisory and other technical services, which can count as part of the total of support.

We use another constructive method to earmark nearly one-third of the support for the encouragement of particular farm practices, selected because our farmers have been relatively backward in them, or because they are the growing points of farm technique. These include fertilizing, grassland renovation, silage making, and various others, and the list has been tending to grow from year to year. Lastly we have found in the United Kingdom that the particular use
we make of guaranteed prices known in advance, enables farmers to plan ahead with more confidence, and relieves them of some of their marketing worries so that they can spend more time on improving farm practice.

I have spent more time than I intended on describing what happens in one country, but most of what I have been saying is of general application. The moral to draw is that in respect of the efficiency and progress of the agricultural industry, it is not so much the fact of support that counts, as the particular means used.

For the under-developed countries, I would give pride of place, if I have correctly judged matters, to massive investment in physical works, although I realize only too well the great strain that such expenditure must place on the resources of poor countries. It is vastly to their credit that they have attempted and achieved so much. General and agricultural education would come next, and here too I would note the great progress that has been made in eliminating illiteracy and making it possible for the peasants and cultivators to begin to learn by the printed word. Given that bit by bit these countries will acquire the basic physical equipment for an efficient agriculture, and a better educated farm population, I should expect specific farm techniques to begin to improve rapidly, almost of their own accord. For the rest of the world, I see no reason to prefer any of the methods of support being practised to those that I have described as the more constructive part of the United Kingdom's support policy—that is, the combination of advisory and technical services with a judicious selection of subsidies directed to particular purposes. If it is necessary to go beyond this, and give very substantial support, the choice must be made between distributing the support among farmers in proportion mainly to their needs or mainly to their output. This can be an uncomfortable choice to have to make. As a general proposition the more closely the support can be geared to the needs of individual farmers taken in turn, or even farmers taken by classes, the less need be the total, because the wealthier farmers can be left out. On the other hand payment by results, as occurs when the support takes the form of somehow raising farm prices, directly encourages more efficient farmers, and should hasten the removal from the industry of the less efficient. This contrast is of course an age-old dilemma of political philosophy, to which there is no clear answer either in agriculture or generally.

Many agricultural support policies seem to me to move uneasily from one horn of the dilemma to the other. The most common form of support is price raising and hence there is an appearance of giving
help in proportion to output. But closer examination may show that
this is misleading. There may for instance be a selection of some
commodities for particular support, and when the reasons for the
selection are probed, they will often be found related to the financial
condition of a particular class of farmers. We find this selection by
need particularly when the real objects of support are social rather
than economic. Generally, however, most support systems are based
on the concept of offering support pretty evenly across the board so
that the more active farmers get most of it. The instinct to do it in
that way is sound, I think, and has properly led to payments by need
being presented as exceptions rather than as the rule. Sometimes the
exceptions may be very necessary ones, but I believe most economists
consider that the fact of support is of itself sufficient of an interfere-
ence with the market, and that the particular means adopted should
not, if possible, be allowed to become yet another.

This paper has not I fear succeeded in producing a set of conclu-
sions such as we hope will emerge from the studies being made by
F.A.O. and other international organizations. I would have liked to
develop a more continuous argument, and to have ended with an
important moral. But that could not have been combined with the
geographical treatment I have preferred in order to cover as best I
could the conditions and problems of many diverse regions. I hope
at all events that I have contrived to interest you by this attempt,
however sketchy, to display some of the common features of prob-
lems with which agricultural economists in almost every continent
have to deal.

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Mr. Kirk has lead us into the jungle of agricultural support
measures. He has described the exuberant growing of various plants,
and he has given us an idea of wild beasts looking for prey under the
cover of these plants. Far from desiring a closer acquaintance with
those animals, I should like to raise three points: (1) The survey
of the vegetation will be facilitated by confining it to countries with
a more or less open system of economics; (2) I shall lay special stress
on measures for improving the agrarian structure; (3) I shall draw
attention to research work for preparing such measures.

As to (1) we bar our approach to a clear understanding when we
try to group the measures systematically merely on the basis of formal
similarities.

In 1936, at the St. Andrews Conference, I gave a paper on compul-
sory syndicates as means of regulating agricultural prices. The nazi
Reichsnahrstand called itself a compulsory syndicate. This plant had not sprung from the same soil as institutions in the Netherlands or Switzerland. Likewise, it will be expedient to deal with the measures in Soviet Russia, and the countries resembling her, separately from those in the rest of the world. Definitely, her measures are not intended to support agriculture as such nor are they designed for the benefit of the men working in agriculture. Rather, they have to subordinate agriculture and agriculturists to the rule established for the whole of economic and social life, and these rules are determined politically and ideologically. The principle of subordination gives to every particular measure, for example in a co-operative organization, an essentially different meaning from that which it has in a system based on voluntary co-ordination of individuals.

Now to turn to point (2). In the rest of the world the intention to support and preserve agriculture by special measures is nowadays even more generally predominant, perhaps, than in 1934 when Dr. Laur noticed it at Bad Eilsen. That was not always so. The refined instruments for raising agricultural prices or lowering the prices of means of production have been developed only during the last three or four decades.

Up to 1914 governments adhered on the whole to the rules of an open system of market economy. In such a system the best results were expected for agriculture as for industry. Thus, special measures for raising agricultural incomes were generally considered to be avoidable. Where they were taken in order to combat agricultural depression, forms were chosen which were easily compatible with market economy. Tariffs, moreover, were kept at a low level and were bound by long-term treaties with the most favoured nation clause. Interest charges were lowered chiefly by improving the organization of credit for agriculture, especially by co-operative credit societies, thus giving farmers access to abundant money-markets.

Nowadays it is held nearly everywhere that agricultural incomes are in need of special support measures. These are so numerous and their forms are of such kinds that in many countries the whole economic order seems to be changed or at least restricted. But beside government measures for raising agricultural incomes directly, there is State support for self-help. We call it improving the agrarian structure. The term is young, the matter is old. Even when introducing economic liberalism, many governments have taken measures for improving the agrarian structure, for example by emancipating peasants, distributing commons, and consolidating holdings. The German Federal Republic demands and supports the improvement
of the agrarian structure, particularly in view of the European common market.

But it became an urgent problem in Western Germany long before the common market or a free trade zone was envisaged. It mainly applies to small and too small holdings which suffer from shortage of land and often from fragmentation. Since the end of the nineteenth century and on into the 1930’s internal colonization, mainly aimed at subdividing large estates into family farms, has become the chief task. The agrarian structure is also improved by reforming the laws of tenure. In our country, the reforms apply particularly to the selling and renting of agricultural land and to the inheritance laws. We hope that in the course of time they will lead to a proper reform of the whole law relating to the land. In most of the less-industrialized and therefore less-developed countries improvement of the agrarian structure is of overwhelming importance. With full confidence I leave these problems to Dr. Sen.

My third point draws attention to the research work being done with a view to improving agrarian structures. This morning Dr. Strong and most of the other speakers dealt with the use of economic research in making a policy aimed at raising the incomes of agriculturists directly. I resist the temptation to make further comments on these very important problems, and confine myself to research on the agrarian structure.

As a rule, generalized measures are not the proper way to tackle the problem. Optimal results can be expected only if the measures, on the basis of detailed knowledge, pay regard to the peculiar local and regional conditions. In my country, the Forschungsgesellschaft fur Agrarpolitik und Agrarsoziologie since 1951 has been investigating the facts of rural living, thus continuing the research of Max Sering, and trying to find guiding principles.

At the beginning, the research concentrated on life in regions characterized by small holdings, and it showed how closely the manifold village problems were connected with the general development of economic and social life. Later, individual problems and their causal connexions were treated: for example, economic interdependence, reaction to price movements, inheriting farms, urban and rural behaviour, and idle land. By exact notes taken on individual holdings the receipts not included in agricultural book-keeping are discovered, such as social aid payments and pensions, or earnings of members of the farmer’s family in industry and trade. Special attention was paid to the social security of the rural population. Careful investigations clarified the relation between wages in agricul-
C. von Dietze

ture and in comparable industries. Full use was made of statistical material for designing maps for orientating regional agrarian policies. But in a good many cases our own regional investigations have to refine and correct the picture given by the statistics. In our Forschungsgesellschaft eighteen research institutes are collaborating. Some of their directors are mainly interested in land tenure problems or rural sociology, others with agricultural economics, others again with farm management. Thus we try to realize what was urged in this conference’s presidential address, and again by Dr. de Barros this morning. We are perfectly aware that the agrarian problems cannot be mastered by specialized branches of science working independently of each other.

Our relations to politicians are affected to a high degree by two facts: (1) we can expect them to make full use of our work only if we have in common a philosophy of the objectives, an understanding of social ethics; (2) politicians on the one hand and economists and sociologists on the other are not different beings. But politicians as a rule have taken their ideas from an older generation of scholars. We, in a way, are preparing the policy of the future by training our students. But we must try to bring to the understanding of the politicians now in office the better knowledge and new concepts which we have been working on since they left the universities. It would be unfair nevertheless to deny that we are indebted to administrators and politicians for bearing the burden of responsibility for making their important day-to-day decisions. From them we get valuable information which stimulates our scientific work and prevents us from being lost in unrealistic sophistry. We shall feel the greatest satisfaction if our work can be of interest and, perhaps, even of help to the whole International Conference and for its members in various countries.

S. R. Sen, Ministry of Food and Agriculture, New Delhi, India

Mr. Kirk has permitted himself the widest possible canvas and has sought to deal with all the different types of agricultural support measures. In seeking to cover such a wide field it is only natural that certain details may get left out or under-emphasized. In so far as the more advanced countries are concerned, Professor von Dietze has made certain useful supplementary remarks. He has rightly put great emphasis on the importance of improving the agrarian structure. He is also correct in saying that support measures need to be discussed only in the context of a free market economy. Problems are quite different in socialized agriculture. I in my turn would like to take this opportunity to point out that in the context of under-developed
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economies, the appropriateness or otherwise of various agricultural support measures has to be considered in a somewhat different light from Mr. Kirk’s. In these countries agricultural support measures are necessary not merely for safeguarding the interest of the farmers but also to stimulate agricultural production in the desired direction.

Mr. Kirk has said that for under-developed countries he would give pride of place to massive investment in physical works. General and agricultural education would come next. Given that, bit by bit, these countries will acquire the basic physical equipment for an efficient agriculture and a better educated farm population, he would expect specific farm techniques to begin to improve rapidly almost on their own accord.

While I agree that both massive investment in physical works and agricultural education are essential, I would point out that if we rely only on these two, the progress may be too small or too slow. There is a limit to the capacity of a State to undertake massive investment in physical works in the field of agriculture and this limitation is greater the less developed a country is. While massive physical works by the State are essential at strategic points to break certain bottlenecks, the bulk of investment in physical works in agriculture has to be undertaken in small bits by the farmers themselves. When members went out on the trip to Mandya last Monday, they saw for themselves that the State had provided massive investment in this area in the form of a dam and a canal and a sugar factory. While that was an essential pre-condition for progress, one should not forget that the farmers themselves had provided a large amount of investment by way of levelling their fields, digging irrigation channels, building small bunds, constructing farm buildings and equipment, using fertilizers, and so on. The value of these investments made by the farmers individually in small bits total up to an amount which is much larger than what the State has invested. It is therefore not enough merely to undertake massive investments in physical works but also to create conditions which would enable and induce the farmers themselves to invest more and more in agriculture. This is where price and credit policies assume great importance. Similarly, general and agricultural education would certainly help agriculture, but education by itself would not lead far enough unless the requisite economic conditions are created. The other day I was reading a paper prepared by the U.S. Department of Agriculture which described how the education which the American farmer had, or the technical knowledge in the field of agriculture that was available in the United States, was not put to full use until certain economic conditions
were created. The know-how was there, but it came to be utilized progressively from the middle thirties when a climate of agricultural stability and prosperity was created, first by the various support measures adopted by the American Administration and later by the rising prices during the war and post-war years. In under-developed countries also, it is seen that even if the State provides certain massive investment and facilities for education, the take off, as it were, in the field of agriculture does not come about automatically until a situation of economic stability is ensured and the possibility of recession reduced to the minimum. This is why the policy of price stabilization assumes great importance where under-developed countries are concerned.

Here I would hasten to make a distinction between what our American friends understand by price support and what we understand by price stabilization. While the American economists understand by price support the maintenance of a higher level of price than the equilibrium level, we understand by price stabilization merely minimization of fluctuations above or below the equilibrium price. Ours is more flexible than the concept commonly understood in the United States. I make this distinction because the controversy that has been going on in the United States during the last decade or so about the desirability or otherwise of price support has had rather unfortunate effects so far as the adoption of a policy of price stabilization in India and some of the neighbouring countries is concerned.

There was a time when most American economists used to say that price support was a panacea for all ills. Now a time has come when a surprisingly large number of them say that price support is the source of all ills. They are carrying on this debate in terms of black and white, forgetting the intermediate shades, and are swinging from one extreme position to another, but we feel unable to accept either of these extremes. In this you may perhaps compare us to the traditional Indian farmer. He listens carefully to whatever advice is given to him by sophisticated people and nods his head out of sheer politeness, but he does not accept any advice until he is himself fully convinced that it is really the right thing for him to do and even then he takes care to modify suitably the advice given to meet his specific needs.

It has been my experience that even if the State undertakes irrigation, soil conservation, and other massive investment schemes, provides fertilizers and other essential supplies, maintains an agricultural extension service and makes arrangements for imparting agricultural education to the young farmers, these measures do not become fully effective until an economic condition is created wherein the farmer feels that the prices will not fluctuate sharply or abruptly
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and that he will not be put to any loss as a result of the extra production which the adoption of improved techniques or the application of fertilizers or of additional labour will entail. That is why I have come to the conclusion that a policy of price stabilization is essential for any real and sustained progress in the field of agriculture in under-developed countries. What the farmer requires is not necessarily a high price. All he wants is a stable price—an assurance that he will not be put to undue loss as a result of the additional investment or effort that he may put in. It is sometimes very misleading to apply the American analogy to the situation in most of the under-developed countries. America has the problem of surplus. If price support leads to further surplus it adds to her problems. But most of the under-developed countries, like India, are facing the problem of scarcity. If price stabilization helps to increase their agricultural output, it is all to the good. Moreover, price policy in a country which has a plan for economic development has to be such as to help the fulfilment of that plan.

I may mention here that this question was considered in some detail at a Regional Centre on Policies to Support and Stabilize Agricultural Prices and Income in Asia and the Far East, held under the auspices of the F.A.O. and E.C.A.F.E. in March last in New Delhi, with which I had the honour to be associated. All the participants in that Centre, from about a dozen under-developed countries, recommended that in the conditions of the region the main objectives of support and stabilization policies should be (a) to eliminate large fluctuations in agricultural prices which are harmful both to producers and consumers, and to contain them within a fairly narrow range which would not involve large or continuing transfer payments between agriculture and other sectors. This may or may not involve guaranteed minimum farm prices. Excessive price rigidity should be avoided in order to allow production to be adjusted gradually to any changes in demand. It would be specially important, however, to eliminate the post-harvest fall in prices and to eliminate localized pockets of very high or very low prices; (b) to improve marketing practices so that cultivators can be sure of equitable treatment and a larger share than they now obtain of the consumer's prices; (c) in this and other ways to provide the favourable economic and social climate to expand agricultural production to meet the growing demand brought about by a rise in population and income.

It was further considered that in most countries the use of a single formula to establish the desirable level or range at which agricultural prices should be stabilized was inadequate and might lead to undue
rigidity. On the other hand, purely ad hoc decisions were liable to be insufficiently based and sometimes unduly biased by one particular set of considerations. Many factors should be taken into account including, for example, indicators of changes in production costs and the prices of things farmers buy, the prices of other agricultural products, trends in general wholesale prices and the general cost of living, indicators of demand and of wage rates for manual workers where small changes in income level have a very large influence on demand. A systematized procedure should be established to provide reliable indicators for such factors and to consider each of them in turn side by side.

In my view support measures such as the deficiency payment system or loans without recourse, which require a large and complicated administrative machinery, do not seem to be quite suitable for countries where farms are small and numerous. In most Asian countries the most suitable method of implementing price stabilization policies for basic agricultural products seems to be government or semi-government market operations combined with the maintenance of a reserve or buffer stock and the regulation of imports and exports supplemented by adequate warehousing and credit facilities for farmers. Other things being the same, the simpler the method, the more suitable it would be for under-developed countries.

Thus, the policy of price stabilization which under-developed countries like India have in view is very different from what most American economists used to advise them to adopt, and what they are now advising them not to adopt. I feel, therefore, that Mr. Kirk should consider giving a more prominent place to the question of stabilization of agricultural prices as an essential condition for other measures of agricultural support which he has enumerated and recommended as effective. Whatever the State can do by way of massive investment and education is certainly important, but the sum-total of small investments made by each farmer is usually much greater than what any State investment can be. Stabilization of agricultural prices, therefore, is one essential measure to be taken for creating the climate in which larger investments by individual farmers become possible.

KARUNA MUKERJI, Santiniketan, Visva-Bharati University, West Bengal, India

Mr. Kirk has said a great deal about tax reliefs. What is missing is some reference to rent relief. For example, in India where the great majority of farmers are small holders, the principle of progression
in fixing rents would certainly provide an incentive which, though marginal individually, would be substantial in the totality. And if it leads to a little more production here, there and elsewhere, it is likely to have a favourable impact on the marketable surpluses.

My next point is that price support is less important in non-monetized or under-monetized countries than direct subsidy to farmers in terms of fertilizers, marketing services, and, perhaps, rehabilitation credit to poor cultivators. Again, price support to be really beneficial to farmers must be flexible, and we have to see that ‘floor’ prices do not necessarily become maximum prices. Again, price support for cereals at the moment is unnecessary in food-deficit countries since the terms of trade of food growers have improved substantially. Further, when giving price support to farmers, the interest of consumers from secondary and tertiary sectors must not be overlooked, or it will lead to a higher wage-cost spiral in the industrial sector, and this will lead to the ultimate worsening of the country’s balance of payments. The danger of a thoughtless price-support policy, for instance in India, may lead to an unwelcome diversion of income and resources in favour of the rural sector where the habits of saving and capital formation are traditionally weak.

Lastly, I hold that specific support measures should be designed separately for specific categories of farmers—rich, medium and poor. In India at present the Government is supplying a good deal of credit and co-operative services, fertilizers, cattle loans, reclamation loans, &c. What we find is that the big and powerful, or the richer, section of the cultivators appropriates all the benefits. For instance, in some of the villages in West Bengal where I carried out investigations, I found that while the Government had extended, say, several thousands of rupees in the form of loans, they had been appropriated mostly by two or three families of rich farmers and then re-lent at a higher rate of interest to the small farmers. They borrowed from the Government at 9 per cent. and lent at 7 5 per cent. There should be separate agencies to render specific aid to specific categories of farmers. That is the lesson which I myself learnt from visiting China some time ago. It would not be inappropriate or irrelevant to say here that in one particular year the State Bank of China extended the equivalent of 112 crores of rupees specifically to the small farmers in such a way that it would help the cases for which it was intended.

P.K.RAY, Food and Agriculture Organization of United Nations, Rome, Italy

I appreciate Mr. Kirk’s difficulty in defining his terms precisely; even so I find a significant omission, namely the measure of support.
Karuna Mulmji

used or required to help farmers to tide over their difficulties caused by loss of crops in the fields or of essential farm requisites owing to factors beyond their control. I have in mind such things as the weather and other natural hazards, accidents to farm equipment, and diseases or death of their draught animals. From his paper I get the impression that Mr. Kirk is concerned more with farmers who are favoured by nature than with those who are frowned upon by her. But support measures to be really effective must carry the process of security and stabilization right back to the stage of production. This is particularly so where nature is fickle and often violent and where the average farm is so small that it hardly pays even in good years. We all know to what extent the failure of crops or sudden death or diseases of draught animals may not only ruin the farmers but may upset an entire economy, especially in predominantly agricultural countries. Obviously to make some protection against these eventualities is essential, and it becomes especially necessary if farmers are to be encouraged to make major investments in agriculture as Dr. Sen suggested. Such protection has a special character when farmers earn a right to it by making some payment, even though it may be only a part payment, and do not depend upon mere relief. Insurance of crops and livestock against specific hazards has long been practised in many countries, but what is needed is an all-risk crop and livestock insurance extended to many other countries. All-risk crop insurance has been practised for nearly two decades in the United States and Japan. The U.S.S.R. also has some form of it. Mexico has adopted it recently, and various schemes are at present under consideration in Brazil, Colombia, Canada, Costa Rica, Sweden, Turkey, Egypt, and India. F.A.O.’s interest in the subject arose especially following a request made in one of its regional conferences held in this state of Bangalore in 1953. The subject has been studied, papers prepared, and articles published in the Monthly Bulletin of Economics and Statistics. At the request of the governments of Ceylon and Costa Rica experts are helping to set up schemes for crop insurance in those countries. A short note describing various systems of crop insurance, analysing their results and mentioning F.A.O.’s activities has been prepared in Rome. A working party of experts from several countries in this region met in Bangkok in 1956. While pointing out the difficulties of adopting insurance in under-developed countries, they recommended pilot schemes wherever possible. The main object of my bringing this particular aspect before this Conference is to emphasize its importance as a support measure, and to apprise members briefly of what has been and is being done at both
national and international levels. An important difference between crop and livestock insurance and most other support measures is that insurance, to a very large extent, pays its own way. Some use of public funds for the purpose is justified however by the benefit it brings to farmers as well as to the community at large.

K. O. Campbell, University of Sydney, Australia

I wish to challenge Dr. Sen’s statement that stabilization of prices is necessary to encourage farm investment. I would put forward an alternative and somewhat heretical proposition, namely that price instability may in fact encourage investment. Sir Sydney Caine suggested in the *Economic Journal* some years ago that so far as the under-developed countries were concerned it was quite likely that farmers would invest more over time if their income fluctuated than if they received the same aggregate income in equal amounts in successive years. From my own work in Australia, I believe that there is evidence that this proposition is equally applicable to relatively advanced countries. Certainly it has been Australian experience in the post-war period that the greatest investment has occurred in those industries of which the products have been sold on a free market rather than in those which have been subject to price stabilization measures having the objectives which Dr. Sen indicated. I would suggest that we need to know a lot more about the mechanics of investment on farms before we glibly accept the view that price stabilization has such great virtue from the investment standpoint. It may be that the position varies from country to country and at different stages of economic development, but I would certainly query the generality of Dr. Sen’s proposition as applied to the more advanced countries.

J. H. Kirk (in reply)

I should like to thank Professor von Dietze, Dr. Sen, and other speakers for their kind remarks and for appreciating the difficulty I had in deciding the appropriate scope of my paper and the proper definition of agricultural support. Professor von Dietze would have liked me to have given more space to land reform and land consolidation which are important support measures used in western Germany. It is, I think, very much to the credit of that country that one quarter or one-third of the agricultural support takes this particular constructive form, which no doubt will greatly diminish the need for agricultural support in the future. But I appreciate his discretion in
confining his description of western German support systems to one of the more favourable items.

Another form of support which I might have included, no doubt, would be crop insurance, a subject of great interest as a useful means of support in countries especially vulnerable to crop failure. I would have liked also to give space to the support supplied through international commodity organizations. For example, the Commonwealth Sugar Agreement, which may be one of the largest and most effective organizations of its kind, imposes charges on the British consumer for the support of all the Commonwealth sugar producers, particularly those in the West Indies.

There is a great deal in Dr. Sen’s comments with which I agree, even when he was criticizing me, which I hope shows that I have learned a certain amount over the last four or five days in India. I certainly did notice on the visit to Mandya the considerable amount of work which has been put into the construction of the paddy fields, all done by the farmers’ own hands over many years; and perhaps one could measure the scope of this kind of work by eye and roughly compare it with major irrigation and other constructional works. All the same I think it wise to put much emphasis on the major dams and irrigation works for what may be called diplomatic reasons. A large part of the money which India is putting into her Second Five-Year Plan is coming from abroad, some of it from the United Kingdom which acts as banker for the whole sterling area of which India is part. Bankers do not lend for the fun of it, and it is usually best to attract their support by mentioning particularly those forms of investment which have a certain amount of romance and glamour about them, as is the case with these major multi-purpose projects.

I think I agree on the whole with what Dr. Sen has said about the stabilization of farm prices, though Professor Campbell’s comment has given us much to think about. Clearly, agricultural support in the sense in which I have used it in the main part of my paper cannot have much relevance to a country like India. In a mainly agricultural country it is quite impossible to support the farmers; if anything, it has to be the farmers who support the rest. But what I have learned at this Conference has brought home to me the extreme fluctuations of prices that are possible in a country which is largely devoted to subsistence economy and which at the same time is at the mercy of a capricious climate. Prices can fluctuate greatly over short periods and over small distances, and that must be extremely depressing to the cultivators, and reduce their incentives to improve and expand.

In his opening remarks, Dr. von Dietze used the image of a hunter
exploring the jungle in search of wild beasts. In writing my paper I felt in places rather like a doctor who has the task of classifying and comparing a number of unpleasant diseases. That is how I regard a good many of the currently practised forms of agricultural support. Of course, they are not all equally evil. Some at all events are neutral, some can be regarded as actually virtuous. If I do not too much invade the province occupied by Dr. Strong this morning, I would suggest that here there is great scope for agricultural economists to help governments in making the right choices among forms of support—not only directly to advise governments, but by their writings and speeches to influence the whole climate of opinion in their countries in favour of the right things to do.