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GROUP 1 (*b*). FARM POLICY IN EMERGING ECONOMIES

Chairman: Ford G. Sturrock, *U.K.* *Secretary*: Hans Ruthenberg, *Germany*

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Theodor Dams, *Belgium* Luigi Virone, *Italy*

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D. G. Sisler, *U.S.A.*
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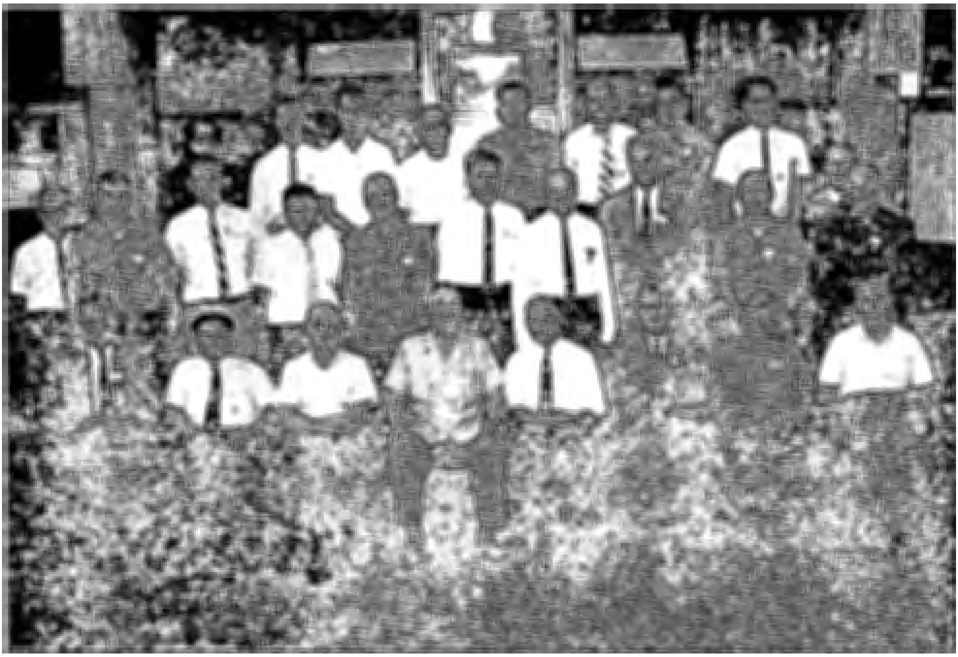
Woods Thomas, *U.S.A.*
D. S. Thornton, *Sudan*
Michel Vouros, *Greece*

After an introductory meeting, the group used the five remaining sessions to discuss the following subjects:

1. The implication of price policy on production.
2. The role of agriculture in the national plan.
3. The role of the State in transforming agriculture.
4. The planning of agricultural projects.
5. The social implications of agricultural change.

When the aim is to induce farmers to produce more, or to change their pattern of production, there are usually only two possibilities—price changes or coercion. The latter requires machinery to enforce the government's orders and a system of penalties to punish those who fail to carry them out. In practice, coercion alone usually fails unless it is backed by attractive prices. This usually applies even when the State can influence production directly in state or collective farms. The effectiveness of price as an inducement can be greatly influenced by the results of studying the psychology of the farmer. A price that remains stable over a reasonably long period is a strong incentive because the farmer feels he can plan ahead. Stability is particularly important when the crop takes a long time to grow; a stable price has far more influence than a higher price that fluctuates.



GROUP 1 (*b*). FARM POLICY IN EMERGING ECONOMIES

First row, left to right:

Rene Benalcazar, *Ecuador*
D. S. Thornton, *Sudan*
Luigi Virone, *Italy*
Ford G. Sturrock, *U.K.*
Hans Ruthenberg, *Germany*
Theodor Dams, *Germany*
W. H. Beckett, *U.K.*
Luke Liakatas, *Greece*

Second row, left to right:

J. P. Gittinger, *U.S.A.*
D. G. Sisler, *U.S.A.*
Nicolaas Luykx, *U.S.A.*
K. R. Anschel, *U.S.A.*
F. V. Beck, *U.S.A.—Iran*
C. K. Eicher, *Nigeria*
Don Paarlberg, *U.S.A.*
Karl Brandt, *U.S.A.*
Elmer C. Hunter, *U.S.A.*
Woods Thomas, *U.S.A.*

Third row, left to right:

B. P. Dutia, *India*
E. M. Ojala, *F.A.O., Rome*
John W. Mellor, *U.S.A.*
K. L. Bachman, *U.S.A.*
R. E. Neetz, *U.S.A.*
Richard Pringle, *U.S.A.*
R. E. Borton, *U.S.A.*
Theodore J. Goering, *U.S.A.*
D. G. R. Belshaw, *Uganda*

The response of farmers to price also depends on the type of farm. With monoculture, farmers change little because they have no alternative. With mixed farming the price elasticity of supply for individual crops may be quite high because farmers find it easy to switch from one crop to another.

It must also be borne in mind that it is not only the price of the product that matters but the difference between receipts and costs. Indeed, so far as the family farmer is concerned, it is the difference between marginal costs and marginal returns that matters. This might mean the difference between the cost of the fertilizer he has been told to buy and the cash value of the extra yield he hopes to obtain. The timing of an incentive is also important. For this reason, if the farmer is short of ready cash the subsidizing of an input such as fertilizer at the beginning of the season may have more impact than a high price for the crop after harvest. It must be added that continuing subsidies of inputs may distort production of these inputs and induce unprofitable investment. None the less, as a short-term measure, a subsidy may be quite effective.

If price is being used to induce greater output from the farming community, it is important to see that this price applies not only to the town market but also penetrates to the 'grass roots' level—otherwise it is the merchant and not the farmer who benefits. It is equally necessary to see that physical obstacles to production are removed, and to see that the necessary inputs are actually available. The administrator must therefore ensure that the roads and the transport are there to enable the higher outputs actually to reach the market, otherwise higher prices will merely produce a form of inflation. The organization of credit, so that the farmer has the working capital to buy the seeds or other materials, can also be a strong reinforcement.

The role of agriculture in the national plan and the priority given to it in comparison with industrial development depends on the objectives of the plan. In broad terms, agriculture impinges on the development of the whole economy of a country in the following ways:

1. Agriculture is a source of food and fibre for home consumption or export.
2. Agricultural development may compete with industry for such capital as is available.
3. Agricultural development can lead to an improvement in rural welfare.

4. The countryside can provide a source of labour for the growth of industry.
5. The rural community can provide a market for an increased output of industrial goods.
6. Agricultural exports can help to redress the balance of payments —by helping to pay for imports of machinery and other manufactures. It may be easier to increase agricultural production for export than to set up factories to save imports. It may also be easier to sell farm produce abroad in well-established markets than to break into industrial markets with new manufactures. The disadvantage of relying on an increase in farm exports is that as supplies in the world markets increase the terms of trade often move against the agricultural products.

In undeveloped countries where knowledge is lacking and farmers are too conservative to change on their own initiative, the state may have to intervene to secure a transformation to modern methods. There is a choice between attempting to transform existing farms, and starting afresh by resettling farmers on newly organized holdings. The first means education and the use of extension services to break through the crust of indifference and suspicion with which the peasant farmer often greets new ideas. Work in educating the farmer may be slow and the results unspectacular. Sometimes this is the fault of the farmer, sometimes it is the fault of the extension officer who may lack the imagination to appreciate the difficulties experienced by farmers who attempt to adopt new practices.

The fact remains, however, that existing farmers form the bulk of the rural population and even a modest improvement per head may produce a very large increase on a national scale.

The second alternative—the creation of new settlement schemes—may be more spectacular. The new holdings are larger and tidier and the farmer may be able to use or hire tractors. The new farmer may enjoy quite a high standard of living and as such help in the creation of a rural middle class whose better methods can serve as an example to their more backward neighbours. Such a scheme may appeal to the politician because the benefits are showy and may impress visitors. The difficulty is that the capital cost per settler is often very high and the number that can be settled is limited. As a result the net addition to national output may be small in relation to the capital invested. Indeed a higher return might be obtained by offering a simple bonus to existing farmers.

The planning of agricultural projects can be greatly assisted by the work of the agricultural economist. Unfortunately the lack of research departments in the subject means a dearth of input/output material necessary for planning at the 'grass roots' level. For this reason the agricultural economist is often less effective as a planner than he should be. As a result, planning of land settlement schemes is often faulty. The same applies to many of the state farms, co-operative schemes and the like, that are often started without adequate preparation and without adequate consideration of the alternative available. It is indeed apparent that two types of economic assessment are required when a project is examined. The purpose of the first is to decide whether, from the national point of view, the increased output justifies the capital and other resources employed. Armed with such an assessment a project can then obtain a proper hearing in competition with other projects in a Planning Ministry or from an international lending body such as the World Bank. The purpose of the second is to assist in deciding how the project is to be carried out and which of the alternative ways of organizing it are to be employed. If the project is a land settlement scheme, the project plan should include detailed farm programming to ensure that the holdings are of a size and type that can be operated by farm families and can provide them with an adequate income.

The final session examined the viewpoint of agricultural economists on the social implications of agricultural policy and rural change.