1. Sugar and Diversification in West Indian Agriculture

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In view of the breadth of the subject, the Workshop leaders tried to identify some major topics to be covered. Discussion was necessarily incomplete. The Group nevertheless came to some agreement in identifying certain problem areas which it felt should be further investigated and drawn to public attention. (The full contributions of two members of the Group are included as Appendices to this Report.)

The topics listed for discussion included:

1 The identification of important meanings of diversification —

(a) incremental or marginal diversification

(b) structural or transformational diversification, that is, from sugar.

2 The clarification of reasons for diversification and its aims — diversification, particularly in the structural sense of diversification, from sugar would

(a) reallocate resources and lead to higher income employment generation

(b) over a period of time, reduce dependence on the metropolitan countries (through exports), strengthen the local economies and reduce risk

(c) introduce flexibility into the structure which would allow, with considerable organisational effort, for regional planning and rationalisation, and for internal rationalisation of resource use.

Many sub-topics were also suggested and discussed:

(i) Would it pay to put our resources into other crops or products when sugar appeared to pay so much better?

(ii) Was there not a divergence between the social cost/benefits and private cost/benefits of sugar production?

(iii) Was the problem one of sugar or mono-culture, or of the structure of the sugar industry, that is, the extreme differences in farm sizes?

(iv) What type of diversification was needed—to other exports, to local food supply, or to industrial production? To what crops could one turn?

(v) What would be the effects of diversifying in the short and long run, especially on employment?

(vi) What were the regional implications for diversification? What were the organisation and transfer cost problems?

The discussion included an extensive review or the specific prospects of the sugar industry of the Region in terms of the international markets. In answer to the question of the uncertainties of the sugar market, the detailed review revealed that the immediate prospects were on the whole good. The preferential U.K. market was assured at least until 1974 and only the prospect of U.K. entry into the European Common Market could upset this. The existing U.S.A. quota at premium prices together with the Canadian market could absorb most of the remaining W.I. production and although such quotas are largely an instrument of foreign policy, the prospects of retaining or even enlarging these markets were promising, unless Cuban supplies again became available to the U.S.A. It was suggested that with rationalisation within the industry and some marginal diversification to other crops as an insurance, the continuation of the sugar industry was desirable.

The nature of the "rationalisation" and degree of diversification required were discussed at some length. The possibility of achieving the objectives of diversification and growth through the existing structure of the industry was considered and it was suggested that reallocation of the control of resources as between estates and small farmers might give good results.

Discussion on these and other aspects necessarily reverted to the role of the sugar industry in the total economy. On the whole it was recognised that historically the plantation structure of the economy (of which sugar was a major part), restricted national and regional economic development because its inherent control of vital resources for production was directed to the maintenance of primary exports, that is, for the self-perpetuation of the industry.

The real reason for requiring diversification from sugar was related to the need for structural transformation, to break down the rigidities in factor markets so that these resources (land, labour, capital and entrepreneurship) could be recombined to maximise national production and reduce dependence on foreign decision-making. The vital point of structural rigidity is that it inhibits indigenous initiative, inhibits the use of all existing resources and prevents the recombination of complementary factors so as to maximise the total economic output. The problem of quantifying the national costs and benefits makes if difficult to measure these against the private financial costs and benefits; nevertheless, it was thought that the apparent "profitability" of sugar cultivation and production should be offset against the social costs, that is, the costs to the total society.

There was further discussion as to the relevance of this thesis in practical terms of what policies should be pursued now, given the existing agricultural structure. It was argued that recognition of past misallocation of resources could not now permit the abandonment of existing fixed capital in the plantation sector. It was thought that the transfer costs and dislocation costs would be so high as to considerably offset future returns. The immediate need to take advantage of existing sugar markets was urged. Since it had been accepted that current returns to sugar production were the highest possible in money terms and technical developments in the industry were promising, it was thought that advantage should be taken of this opportunity to gather the benefits, to be used for planning the structural diversification ultimately required.

It was accepted that future planning of agricultural development concerned with sugar and diversification must be worked out at the regional level as well as requiring intense effort at the national level.

The major conclusion of the discussion was that while the immediate prospects for sugar were reasonably good, the solution of major economic problems lay in developing the means for obtaining structural flexibility through transforming the plantation economy into a national or Caribbean economy in which dynamic diversification away from sugar could be achieved.

The case for Structural Transformation of Agriculture — Statement by G. Beckford.

The justification for structural diversification from sugar, the reason for requiring this change, rests on a historical analysis of the plantation economy which demonstrates that this economic system inherently contains structural rigidities in the factor markets which limit the capacity for diversification. Diversification would mean a re-combination of factors of production so that total costs would be reduced and dynamic development in production would increase total output.

1. The sugar industry and the plantation sector in general have shown a limited capacity for diversification in the past. Historically, diversification has been almost exclusively a result of the efforts of the W.I. peasantry since emancipation and especially since 1846 after the loss of preferences.

2 The problem of diversification is a structural one. So long as the sugar industry controls so much of our agricultural resources in the form that it has for such a long time, diversification is unlikely to proceed at any satisfactory rate. This is particularly the case in land-short economies where the production of sugar is in more direct competition with alternative land uses.

3 The innovating section of W.I. agriculture has for a long time been the peasantry. But this sector has an extremely limited capacity for expansion because of a shortage of resources — in particular, land and capital. This is a part of the structural problem of diversification in the sugar areas.

4 The reasons for the limited diversifying capacity of sugar plantations are not hard to find. Everything is based in favour of their continued sugar production.

5 Some of the more outstanding factors are:

(a) Highly specialised metropolitan ownership of a significant part of the industry and the maintenance of a form of vertical integration in foreign hands.

(b) Protected overseas market which provides artificially high prices and reduces the degree of risk and uncertainty. The W.I. sugar industry is perhaps the oldest infant industry in history.

(c) Relatively advanced state of technical knowledge in the production of sugar reduces relative risks.

(d) An agricultural infra-structure that is largely confined within the boundaries of sugar estates.

(e) Adequate supplies of credit for sugar production through the industry's direct access to metropolitan credit and banking institutions.

(f) Limited knowledge of production possibilities outside of sugar because research has been geared to the dominant existing industries.

Given such factors in sugar's favour for such a long period of time, it is hardly surprising that sugar is still "king" in much of the Caribbean.

6 The question of diversification in relation to sugar should be studied against the background of at least one basic question: given the cost of maintaining the industry in its present state, is this the best utilization of our resources from the point of view of complete accounting of overall total employment and income creation in the long run?

Costs of production and returns cannot be looked at in a static sense, because as diversification and transformation take place, the dynamic and cumulative effects will erode the present disadvantages of the residentiary or non-plantation agricultural sector.

The total cost of the industry should include:

(a) The cost of the reciprocal preferences given to metropolitan manufactures in return for sugar protection.

(b) The opportunity cost of the research given to the export industries by national governments.

(c) The opportunity cost of the land and capital restrained from combining with available labour to create additional employment and incomes.

Especially on (a) above, it has been estimated that the subsidies received from the U.K. are less than the subsidies which West Indian consumers have to give in return to U.K. manufacturers.

Comment by B. Persaud

It is suggested that the poor performance of agriculture in the Caribbean is attributed too much to the plantation system. The role agricultural diversification could have played in promoting agricultural progress in the past (except more recently) is perhaps exaggerated. Even if diversification had this role, too much is made of the plantation system being responsible for lack of progress in diversification. The size of the economies and narrow possibilities for international trade in a wide range of crops because of the state of food preservation and processing technology prior to the present century, were also limiting factors. It is important to note that even where small-scale farming developed on a significant scale, traditional export crops were concentrated on.

It should be noted also that the plantation system was not wholly imposed on Caribbean economies. In Barbados for instance, plantation agriculture evolved from small and medium-sized farms and this evolution resulted from economic circumstances — the advantages of large-scale production of the main crop, sugar.

We need to be reminded that many of the features of the plantation system do not now exist in large-scale agriculture. With the mechanisation of sugar cane harvesting the plantation would become indistinguishable from normal large-scale commercial agriculture.

Too much emphasis is being placed on the misallocation of research resources in the past. The greater allocation to export crops was not only due to political circumstances but to the greater pay-off that was possible because of large acreages, and a farm organisation which facilitated communication of new knowledge. The organisation also helped in the articulation of demand for new knowledge and assisted by providing a good part of the funds devoted to research. It is a popular myth that insignificant attention was given to food crops and new crops. From very early in the present century, attention was paid to these crops and the needs of these crops were an important consideration when the Agriculture Departments and the Imperial College in Trinidad were established.

It is not denied that there may have been misallocation of research resources. Long-term considerations may not have been given their full weight. But we cannot say because of this, that we must now 'make up' for the past by devoting most of our resources to minor crops and new crops. In our traditional crops, especially sugar, our technology is quite developed and it is possible that further efforts to make this crop competitive may give greater returns than the efforts required to grow and market the new crops.

The innovativeness of the small farmers is questionable. It is natural to expect small farmers to produce some of their food requirements but this cannot be attributed to innovativeness. In a way, small-scale farming is more flexible and could perhaps make a faster response to new opportunities. But this is due to organisational reasons rather than innovativeness. Even if we concede innovativeness in this direction, this could hardly be compared with the large amount of innovation which has been taking place in the large farms and which has been enabling them to adjust to wage increases which were out of relation completely with price increases.

It is difficult to understand how West Indian agriculture could have been adversely affected by artificially stable and higher prices. These increase profit prospects and may have been partly responsible for whatever progress agriculture has made in the Area. Perhaps the relatively good position of the West Indies in living standards in the underdeveloped world could be attributed partly to the large role of protected crops in their economies.

Reply by G. Beckford

It is necessary to be realistic and look at what now exists to see what direction planning should take.

A Note on the Sugar Preference and the Cost of Maintaining the West Indies Sugar Industry in its Present Form.

Present Form by G. Beckford.

The preferential arrangement on sugar with the U.K. must be seen in the context of the overall cost to the West Indies.

In return for the high negotiated price we receive for sugar sales to the U.K., the West Indian consumer suffers by providing preferences to U.K. manufacturers. Many consumer items which we buy from the U.K. can be secured at lower prices from other sources. For a proper assessment of the money costs and benefits, we need to deduct from the money gains the negotiated price:

(1) the share of the difference going back to foreign owners of W.I. sugar, and

(2) the extra cost incurred in buying U.K. manufactures in preference to other sources. A few studies on this subject suggest that we may in fact be on the losing end in this money calculation (see Harry Johnson, H. Brewster and C. Thomas, 'West Indies Trade with Canada' in **West Indies-Canada Economic Relations,** I.S.E.R., U.W.I., 1967; and Hugh O'Neale, **An Evaluation of the Significance of the Commonwealth Preferential System for the Economics of the Commonwealth Caribbean,** M.Sc. Thesis, April 1966 McGill University).

In addition to these considerations, we need to consider certain dynamic costs that are involved. First, the artificially high price on sugar restrains the switching of resources to high income elasticity demand products for regional consumption (e.g. meat and dairy products). Production of such commodities has a high potential for income and employment (that is, total linkage effects) creation in the long run. Second, and related to this, is the support which the preference gives to marginal sugar producers thus weakening the competitive position of the industry in international markets. Third, we need to assess the cost to our economies of foregoing opportunities for development of **our own manufacturing sector.** Through the preferential arrangement, West Indian consumers are assuring this market for British manufacturers and potential West Indian manufacturers are placed at a disadvantage in relation to those items we now import from Britain.