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Limit Price Setting, Invest More—Government's Responsibility to Agriculture

Agricultural Price Policy for Developing Countries. Edited by John W Mellor and Raisuddin Ahmed Baltimore Johns Hopkins University Press, 1988, 327 pages, $35

Reviewed by Ray W. Nightingale

The focus of this book can be summed up in one quote

> "Price policy is not the basic engine of economic development, but it is of great political importance and can be a major drag on development if not properly articulated " (p 291)

This book is based on a set of International Food Policy Research Institute (IFPRI) reports presented at a 1984 Swiss Development Cooperation-sponsored seminar The book is based primarily on the work of IFPRI, but it also draws on the contribution of 13 economic policy experts from abroad and reflects Mellor's years of price policy research experience Emphasis is not on abstraction of economic relationships and measurement but on applied problems. As Mellor says, the book "stops the action" to provide readers with a snapshot of the implications of IFPRI agricultural price policy research The objective is "to focus explicitly on agricultural price policy in the context of economic growth and, more specifically, of technological change "

It is improbable that at one time a set of researchers would have in hand a collection of papers neatly falling into chapters of a book Researchers just are not like that, particularly good researchers in a good research environment IFPRI's great advantage is precisely its ability to attract exceptionally knowledgeable people from around the world, giving them respite from their professional duties to research subjects of interest to them

The introductory and concluding papers by Mellor and Ahmed provide a systematic treatment of agricultural price policy for accelerating growth and a framework to which readers can relate Other papers are grouped under. international environment, domestic market intervention, production response, technology, and commercialization, and consumer welfare

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The result is an excellent set of thorough and professional research papers The 26-page concluding paper contains the conceptual framework, richly leavened with the findings of policy research

The preponderance of western economic literature tells us that economies perform best if buyers and sellers in private enterprises set the terms of exchange among themselves While we commonly characterize this as market pricing, abstract markets do not set prices, decisonmakers in enterprises set prices While agricultural markets are among the most atomistic, it is in these markets that the dictum of the superiority of private decisions is frequently violated For reasons both technical and political, the people who set prices for many agricultural commodities around the world have been the employees of governmental agencies The basic instruction of *Agricultural Price Policy for Developing Countries* is that government cannot avoid pricing agriculture, but that the activity should be viewed as an essential responsibility of government, not as an opportunity

With the relative advantages of market pricing conveyed, Mellor and Ahmed identify two particular problems which occur when relying on the market alone to solve agricultural price troubles First, the market "may equate the wrong side of the supply-demand equation" (that is, market prices may bring demand into line with supply when the policy intent is greater agricultural output) Second, the lag between an action and its effect may be too long to be acceptable The task of agricultural price policy is more than that of determining appropriate prices in the short run Policymakers must be able to predict prices that would prevail without market intervention and then develop appropriate long-term policies

To support accelerated technological change, government expenditures in agriculture must grow immensely Each chapter on technology and the commercialization of agriculture announces public costs Public expenditure is required for the fostering of technological change, support of agricultural prices, subsidy for inputs or the distribution channel for inputs, and encouragement of growth in employment Mellor and Ahmed recommend that the structural requisites of growth in food production and employment take priority over input subsidies and price support, especially if public resources are scarce

Five difficulties confront technological change public resource scarcity, instability in agricultural prices, downward price trends, the increased use of purchased inputs, and equity in rural regions

In the concluding paper, Mellor and Ahmed give an incisive review of theory and practice, drawing on broad experience They describe the pitfalls that several decades of struggling policymakers have experienced They do not treat policymakers of developing countries unsympathetically Their experiences are, after all, not very different from those of developed countries

The 1984 seminar does not date this book The observations on policy pitfalls are today's news and communicate strong warnings on the dangers of poor price policy, particularly pertaining to the growth agenda seen as a way out for low-income countries Farmers and consumers in developing countries will benefit most from a government that focuses on promoting growth in agriculture An agenda for growth, combined with concern for equity and stability in agriculture, is the best type of policy for developing countries to follow But Ahmed and Mellor remind us of the "intensely political nature of price policy, even in countries where agriculture is a minor sector " Both farmers and consumers have an uncommon claim on the hearts and minds of politicians In developing countries, farmers make up a large share of the population, and food supply shortfalls are borne by low-income people "through drastic reduction in their intake of basic nutrients "

Policy advisers who venture abroad should check this book out It is a very good reference for lecturers on farm policy because it conveys, with substance, the varied international landscape of agricultural policymaking

The reports include (1) "Agricultural Price Policy—the Context and the Approach" by Raisuddin Ahmed and John W Mellor, (2) "Trends in Cereal Supply, Demand, Trade, and Stocks" by Leonardo A Paulino, (3) "Changing Patterns of Variability in Cereal Prices and Production" by Peter B R Hazell, (4) "Pricing Principles and Public Intervention in Domestic Markets" by Raisuddin Ahmed, (5) "Public Stock Management" by Ammar Siamwalla, (6) "Risk and Uncertainty in Domestic Production and Prices" by Peter B R Hazell, (7) "Foreign Trade Regime, Exchange Rate Policy, and the Structure of Incentives" by Alberto Valdes and Ammar Siamwalla, (8) "Relative Prices in the People's Republic of China, Rural Taxation through Public Monopsony" by Bruce Stone, (9) "Determination of Administered Prices of Food Grains in India" by J S Sarma, (10) "Capital Accumulation, the Choice of Techniques, and Agricultural Output" by Yiar Mundlak, (11) "Technological Change, Production Costs, and Supply Response" by C G Ranade, Dayanatha Jha, and Christopher L Delgado, (12) "Policy for Rapid Growth in the Use of Modern Agricultural Inputs" by Gunvant M Desai, (13) "Government Credit Programs Justification, Benefits, and Costs" by Mark W Rosegrant and Ammar Siamwalla, (14) "Good Subsidies Consumer Welfare and Producer Incentives" by Per Pinstrup-Andersen, (15) "Implications of Food Aid for Price Policy in Recipient Countries" by Joachim von Braun and Barbara Huddleston, (16) "Agricultural Price Policy for Accelerating Growth" by John W Mellor and Raisuddin Ahmed