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Book Reviews

Economics of Oil Palm

The Economics of Oil Palm. Economics of Crops in Developing Countries, 2. H.A.J. Moll. Centre for Agricultural Publishing and Documentation, Wageningen, The Netherlands, 1987. Hard cover, 288 pp., Dfl.125/US\$62.50. ISBN 90-220-0876-2.

This highly useful book provides a comprehensive treatment of the growing and marketing of oil palm in the chief producing area of the world. It covers the main international producers, Indonesia, Malaysia and Nigeria, as well as four other producers representative of conditions in Africa and Central and South America.

The book commences with an informative introductory chapter, giving a concise general background on the botany and ecology of oil palm, as well as the techniques of producing and processing it. This chapter also deals with the distribution of world production and consumption of major vegetable oils and fats including palm, and with trade and prices. The conditions relating to oil palm in selected countries are treated in separate chapters, using a standard format with facilitates comparison. Thus a background geography of each country is followed by an account of the development and organization of the palm products sector, a description of production conditions and structures, a detailed treatment of production and processing costs and returns, an examination of marketing, processing, and tax arrangements, a discussion of the export and domestic consumption of vegetable oils, and an account of supporting research and advisory services. Each chapter is concluded by a summary and tabular presentation of the main economic parameters relating to oil palm.

The main points of difference between selected individual countries are drawn out in a comparative chapter, which is again presented in the same format. This chapter shows, for example, how Malaysia and Indonesia with their relatively high yields and efficient production arrangements were really the only countries which profitably produced palm oil at the (comparatively high) market price in 1982. The chapter also indicates Malaysia as the most efficient producer in terms of domestic resource costs utilization. It brings out the distinction between Malaysia as a major exporter of palm oil, and other countries with their very substantial domestic consumption of palm products. It further denotes the substantial government interventions which characterize all palm product industries, greatly affecting the economics of production by modifying prices of both inputs and outputs.

The account is illustrated by some excellent photos, and the numerous tables

of figures bear informatively on the topics at hand. In its exhaustive comparative analysis of conditions in a wide range of countries, this work follows the high standard set by the first study in this series (on coffee).

Despite the exhaustive coverage, however, some major problems relating to the economics of oil palm remain untreated. These especially relate to the huge role of government in most countries, and especially to the main ways in which policy makers have tried to stimulate small farm development. Thus although there is now widespread dissatisfaction with the economic and social results of governments' role in organizing parastatals, with a search for more effective methods of support, this is not mentioned at all. Yet serious problems arise in various ways with the Federal Land Development Authority and other schemes in Malaysia, the government-sponsored nucleus estates in Indonesia, and the various efforts to improve smallholdings in West Africa. The difficulties of these ventures cry out for comparative treatment and analysis. Again, little attention is given to what in recent years, and especially in Malaysia, Thailand and Indonesia, has been the most dynamic oil palm sector, that involving private individual smallholdings of 2-3 ha. Here a major policy issue, which is barely mentioned in the book, concerns how supporting services, and especially credit, should be provided. This reviewer also has quibbles with the way in which some information is presented. The impression is given in the chapter on Malaysia, for example, that Harrisons Malaysia, Kumpulan Guthrie, and Sime Darby are private concerns, when in fact their shareholdings are largely dominated by government. Again, the discussion of future consumption and price prospects of palm oil, which is a further major economic issue and a fundamental concern for new investors, is disappointingly slight. It is also a pity that the 'cut off' point for most references and figures is 1982-83, when for some items at least later references would have improved the discussion.

Enough of such carping, however. The book is a most important addition to the literature on oil palm, and deserves a significant place in the libraries of those concerned with a crop of particular significance to the developing world.

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Milk Quotas in the European Community

Agricultural Policy Formation in the European Community: The Birth of Milk Quotas and CAP Reform. M. Petit, M. de Benedictis, D. Britton, M. de Groot, W. Henrichsmeyer and F. Lechi. *Developments in Agricultural Economics*, 4. American Elsevier, New York, 1987. Hardcover, 176 pp., Dfl.120. ISBN 0-444-42894-1.

This book is an extension of some work started by Michel Petit while at the International Food Policy Research Institute, Washington, DC on the determinants of agricultural policy. It reports a team effort by all the authors in examining the events and pressures which led up to the historical European Summit of March, 1984 which introduced milk quotas as a part of a complex package of measures connected with the Common Agricultural Policy. The purpose of the research is to understand the policy process as the interaction of competing and conflicting pressures and objectives among the European Community's member states, and thus to provide the beginning of a theoretical framework within which policy developments may be better understood and, eventually, predicted. While the results as presented in this text fall somewhat short of this ambitious target, the story of the policy development is well told and the book offers insights into the complexity of European policy formation.

The book is in four parts: (1) the theoretical background to the study of political economy and what is now called Public Choice, and the development of some hypotheses about policy behaviour; (2) some background and description of the events leading to the final decisions; (3) analysis of these events at the country level (for the main countries — France, Germany, Italy, The Netherlands, U.K.); (4) analysis at the community level. The essence of this discussion is that "in the short run, policies are the results of conflicts of interests regulated through the political process, in the long run they evolve under the influence of powerful long term economic forces" (pp. 139/140).

The colour of the cover (a rather hideous pink) and the presentation of the book (camera reproduction of typescript) with an irritatingly large number of typos (including the repetition of a complete paragraph, p. 23) does not lend the analysis particular credibility or readability. The integration of a number of authors, who in spite of their undoubted eminence are not all exactly in tune with Petit's approach, is also somewhat uneven. In many ways, the book represents a good example of traditional policy analysis and description rather than a path-breaking development of a new approach which, I suspect, is what Petit is aiming at. I would be surprised if Michel Petit is entirely happy with the outcome. Nevertheless, for those who are not familiar with the labyrinthine contortions of agricultural policy within the European Community, the book is a useful, readable and illuminating description and socio-political analysis of what is a major policy change — the introduction of milk quotas.

The story is a classic one of policy package proposals and negotiation about the constituent parts of the package, with the twin threats of budget exhaustion and failure to decide providing the spur for eventual compromise and decision. The result is largely regarded as 'second best', if that, but is not surprising given the absence of agreement about the first best solution. It is an interesting question as to whether this disagreement is the result of the 'Prisoners' Dilemma' — in which self-interest defeats collective rationality — and a deliberate lack of clarity in the presentation of member state concerns and requirements. "There is seldom any political benefit to be gained from making such choices explicit" (p. 16). If this is the case, then the implication is that there is a better way of making decisions and encouraging the decision making so as to be able to achieve the first best solution. The suspicion is, however, that the disagreement results from a fundamental difference between member states about the appropriate weights and even definition of policy objectives and different perceptions about the effects of various instruments. In this case, given the validity of the weights and perceptions, there is no such thing as a 'first best' solution other than the one which can be agreed upon. This question and its implications, however, are not addressed in this book. It cannot be avoided simply by invoking the argument that investigation involves value judgements about which the professional economist cannot claim to special expertise. Examination of other peoples' and groups' value judgements and their implications are precisely the stuff of the economic analysis, albeit often subsumed in the assumption that prices and expenditures are a valid reflection of other peoples' value judgements.

The practical inevitability of milk quotas as the only acceptable solution to the EC milk regime comes through in this book, anticipated by the Commission in the original proposals to which the final outcome was remarkably similar, except in important details. Whether it is really true that all except France accepted this as early as the Athens summit in December, 1983 (p. 33) is more debatable. The public statements from the U.K. administration at that time seemed to the outsider to be saying that milk quotas were unacceptable. Perhaps this is an example of the often wide divergence between the public and private positions of negotiators, which may well be related to the distinct possibilities and political advantages of being able to shift the blame for unpopular decisions to others in the negotiating process. Again, the book is disappointing in not exploring these differences. Given that much of the underlying research involved interviews with participants, these differences could have been isolated and analysed.

The general advice of the agricultural economics profession about the advisability of milk quotas is also worth closer examination, but does not receive it here. The accepted wisdom is that quotas discourage efficiency and freeze production practices. They are not well liked by economists, and were almost certainly given very low marks in the competition for policy options by advisors

and interests served largely by economists. The mere fact of the adverse grading of quotas by economists can only have made their acceptance more difficult, though some would say not difficult enough. However, there are aspects to quotas, as limits on individual rights to support, which do offer ways of getting from a commonly accepted but unsustainable level of agricultural support to a more realistic level of support. These aspects were, however, entirely ignored in the negotiations, with the result that the quota mechanisms as finally agreed were both insufficiently effective and unnecessarily restrictive and narrow in their application.

I am left with the final impression of the book as going to great lengths to demonstrate the rather obvious, though I am willing to admit that this perception may stem from my own familiarity with the issues and arguments. For those with less familiarity, the book, in spite of its shortcomings, is a useful account of the European Community's decision-making process, providing interesting insights into the issues and arguments. It may also prove to be a very useful starting point for further research into the process and policy behaviour, as the authors indicate in their conclusions.

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Agriculture's Future: America's Food System

Agriculture's Future: America's Food System. T.L. Wallace. Springer, Berlin, 1987. Softcover, 93 pp., DM39.80. ISBN 3-540-96482-7.

Agriculture's Futures: America's Food System by L. Tim Wallace should be retitled, 'America's Agricultural System', because, although it contains a chapter on consumer demand and food marketing and another on natural resources and the environment, it is primarily a description of the U.S. agricultural sector, some of the forces impinging upon it, and what may be expected if current trends continue. It would serve well as a supplementary text for a freshman- or perhaps sophomore-level course in agricultural economics or for an adult extension course for those who deal with farmers.

The contents are reflected in the chapter headings. The first chapter is an overview describing the U.S. agricultural system, its industrialization, changes in product processing and distribution, transportation and government policies influencing agriculture, and the politics affecting the system. The second chapter, entitled 'Macro Forces Shaping U.S. Agriculture', discusses the financial status of farmers and farm lenders; the international market for U.S. farm products; and the effects of monetary, fiscal, agricultural, and tax policies on

agriculture. The third chapter, 'The Changing Structure of Agriculture', discusses agriculture's recent evolution, the survival of the family farm, the future of cooperatives, implications for farm households and communities, and industry concentration in food marketing. In the fourth chapter there is a discussion of farm production inputs, i.e., land, water, labor, management, financial capital, transportation, and energy. Future changes that may be expected are described in this chapter and in the fifth, 'Technology and Productivity — Future Changes'. Topics discussed (e.g., sources of new technology, property rights, biotechnology, technology in food processing and meteorology and climate change) are among the most controversial in this subject area. The remaining chapters — entitled 'Consumer Demand and Food Marketing', 'International Agricultural Trade', 'Federal Farm Programs', 'The Role of Government in Agriculture', and 'Natural Resources and the Environment' — lead up to the last section, appropriately headed 'Toward a Sustainable Agriculture'.

As the author notes, much of the material came from leaflets prepared for a Cooperative Extension project entitled 'The Farm and Food System in Transition', sponsored by the extension services of Michigan and some other states, the Farm Credit System's 'Project 1995', and Texas A&M's, 'The Farm Credit Crisis: Policy Options and Consequences'. The reliance on these materials probably accounts for this publication being primarily descriptive rather than analytical. It is encyclopedic, and it clearly reflects the author's contention in the preface that the system is complex and its components interdependent.

In the preface, the author concludes, "The entire system is increasingly consumer driven, with market power shifting to the retail outlets as they respond to consumer preferences rather than urgings from food manufacturers. The production sector is still primarily a response mechanism adjusting cost structures where possible in line with 'given' market prices. Keys to profit and survivability throughout the system lie in product/service differentiation, superior management (finance in particular), use of relevant technologies, and effective communication of all kinds." This reflects the thinking of many forward-looking U.S. Cooperative Extension economists. So does the statement on the last page, "Future farm business cannot be as usual — cannot because much of today's farming is not physically, economically, or socially viable in the long run."

There could well have been more emphasis on agricultural products used by the industrial sector (soybeans for plastics, corn for ethanol, etc.) and the dependence of other sectors on the agricultural sector but, all in all, this publication accomplishes its objective — to give the reader an understanding of the U.S. agricultural sector and its changing nature and characteristics.

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