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THE IMPACT OF SUPERVISED CREDIT PROGRAMS ON TECHNOLOGICAL CHANGE IN DEVELOPING AGRICULTURE: REPLY

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Lesueur draws attention to the 'cost of poor supervision' in agricultural credit programs. He implies that more resources should be devoted to achieving *better* supervision, as if the only flaw in such programs was inadequate supervision. It is fortunate that he has chosen to highlight this issue, for it is our continued view that the *need for supervision* is *prima facie* evidence of the inappropriateness of supervised credit programs as a policy instrument for enhancing the adoption of innovations.

If the supervised credit program requires the application of any input (e.g. fertiliser) at a level in excess of that which would have been employed, and that input is supplied below its market price, then it seems reasonable to expect its resale. The production function approach tells us that the restriction would drive the marginal product of the input below the farmer's unconstrained optimum, and consequently an alternative use will be sought. While resale may have been treated explicitly in a decision theoretic framework as suggested by Lesueur, resale is only one of several alternative uses. Furthermore, a decision theoretic approach requires knowledge (factual or assumed) about risk preferences which would take us well beyond our more modest efforts. In this context, however, it was our intention to extract as much information as possible from objective rates of substitution (relative prices and production parameters) before engaging in the more difficult analysis of subjective rates of substitution (tastes and preferences).¹

Lesueur makes an interesting analysis of the data in Table 2 of our paper (p. 8). Here we confess we were slaves to tests of statistical significance and did not develop our argument further from statistically insignificant differences. If one accepts his analysis, an even stronger argument can be made for the inadequacy of *supervised* credit programs.

References

- Scobie, G. M. and Franklin, D. L. (1977), 'The impact of supervised credit programs on technological change in developing agriculture', *Australian Journal of Agricultural Economics* 21(1), 1-8.
Stigler, G. J. and Becker, G. S. (1977), 'De gustibus non est disputandum', *American Economic Review* 67(2), 76-90.

¹ A helpful approach to resolving the dilemma between the roles of objective and subjective analysis is presented by Stigler and Becker (1977).