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REVIEW ARTICLE

G. R. ALLEN, *Agricultural Marketing Policies*. Basil Blackwell, Oxford, 1959.
Pp. xii+337. 42s.

EUROPE, unlike the U.S.A., has no modern textbook on agricultural marketing, other than J. Milhau's *Traité d'Économie Rurale*. Therefore this new book from England, by a Fellow in Social Studies of St. Edmund Hall, Oxford, and a Research Officer at the Agricultural Economics Research Institute at that University, will arouse much interest in Europe, even though the author himself writes that it is not a textbook in the true sense.

The author has brought together a series of previously published articles in extended form and has supplemented them with further topical chapters. In his introduction, he says the book 'can be used as a reference on the main issues in British agricultural marketing policy and, at least for students already possessing some substantial training in economics, as an advanced textbook relevant to the problems found in many countries'. The book deals with such problems as (1) economic uncertainty and its relations to cost of production and to fluctuations in agricultural production, (2) marketing margins and public policy on marketing costs, (3) marketing of fruit and vegetables and fatstock, and retail milk distribution, in Great Britain with mention of other countries, together with several other topics in British agricultural marketing.

In agricultural marketing policy, what particularly interests us is the development of the terms of exchange between agricultural and non-agricultural products, the propensity towards violent fluctuations in prices and its removal, and, not least, the efficiency of marketing. This, however, is a large field. Consequently in the United States there are textbooks on agricultural prices on the one hand and on agricultural marketing on the other—subjects which, of course, overlap to some extent.

Mr. Allen's book deals particularly with the mitigation of price fluctuations caused by fluctuations in supply, and with the promotion of marketing efficiency. As he himself points out, the relation between agricultural market policy and income distribution, particularly between agriculture and other sectors of the economy, is not dealt with. However, some remarks have been included in this connexion. Generally, public intervention aims at increasing the bargaining power of the producer in relation to the distributor. There are many ways of doing this. One way is to increase the efficiency of the marketing industry. The producers and the consumers are benefited by any such gains, depending upon the price elasticity of supply and demand in each case. When price elasticity of supply is relatively high, the consumer is largely benefited by diminution of the margins, except when the producers can control the market supply. When marketing is already highly efficient, as a few examples show, improvement of the bargaining power of the producers might lead to agreements of producers with the processing industry and trade, at the cost of the consumer. This, however—ignoring times of depression, which the author thinks unlikely to occur in the future—does not appear to him to be the correct course, as prosperous

farms are especially benefited by agricultural income support through limiting supply and increasing prices. Moreover, the already imperfectly functioning 'market mechanism for transferring surplus labour and capital from agriculture to alternative employment at a time when agricultural production once again seems to be growing more rapidly than the effective demand for it over much of the world' would only be still more impeded.

The interesting relation between 'Economic Uncertainty and the Cost of Agricultural Production' is dealt with in the second chapter. Here the author points out that the farmer cannot simply aim at maximizing returns, because supply and price, depending upon weather amongst other factors, cannot be estimated with certainty. The author quotes R. Schickele in saying: 'The survival end has priority over the maximisation end.' Such a cautious attitude of farmers is but the particular consequence of bad experiences. In the face of fluctuating supplies and heavy price fluctuations resulting therefrom, the farmer must always be on his guard against violent decreases in prices and income. He is, therefore, inclined to refrain from investing capital, particularly borrowed capital. In addition he tends to diminish risks by diversifying production. It follows that a marketing and price policy which aims at more stability of prices is an effective means of keeping down costs, as this creates better conditions for specialization and rational capital investment.

The author devotes much space to self-generating cycles in the output of certain farm products. These cycles have become clear to us through the well-known cobweb-theorem, developed by J. Tinbergen and M. Ezekiel, to mention its most significant promulgators. From the material presented one can realize the great role self-perpetuating cycles still play, not only with regard to pigs and vegetables, but also—for longer periods—with regard to beef-cattle (U.S.A.) and coffee, in each case depending upon the duration of the growing period. In this connexion the author is expressing the hope that in time to come, with more marketing intelligence the farmers could be dissuaded from responding erroneously to transitory price movements and would base production upon achievable relatively stable prices. The author believes that indications of this are discernible in the U.S.A., where exemplary outlook work has been established. The reviewer may be allowed to remark, in this connexion, that the pig cycle in Germany has been mitigated in the last decade by three factors: (1) A stabilization of feed-grain prices has eliminated those fluctuations in pig breeding which were previously induced by widely fluctuating feed-grain prices on the free market. However, the influence of the widely fluctuating prices of potatoes, through the policy of feed-grain supply and price control, has been mitigated but not eliminated. (2) The rapidly increasing demand up to the present has easily absorbed the increasing supply of pork, so that pig-price depressions of longer duration were avoided. (3) A quarterly outlook of surprising accuracy (by Professor Plate) has helped to avoid extreme ups and downs in pig production. In this connexion the author also considers the problems connected with income and price elasticity of demand for food without, however, devoting a special chapter to demand and consumption. Readers may regret this limitation all the more because the short expositions indicate that the author is well versed in demand problems. There is also no mention of the fact that prices of goods for which

demand is inelastic tend, *ceteris paribus*, to fluctuate more widely than prices of goods for which demand is elastic. This has important implications for the design of market and price policy. Readers may also miss a more thorough treatment of the difference in supply elasticity of various products. This could be fruitful for the general economist, as, depending upon the relative elasticity of supply, production reacts quite differently to price changes. The reader is compensated, however, by a very instructive discussion of the possible techniques for controlling production cycles and reducing year-to-year price changes. In this connexion the following subjects are treated: (1) the Dutch price-insurance scheme; (2) acreage licensing and support prices; (3) forward prices guarantees; (4) the Potato Marketing Board and similar organizations; (5) the behaviour of distribution costs; (6) advice on future production programmes; and (7) imports.

These are crucial problems of market policy. For 'the ideal marketing system should not only minimize distribution costs but as far as possible help to remove the causes and effects of wide annual fluctuations in price'. In accordance with his liberal attitude the author does not attempt to conjure up a drawing-board strategy. Instead he recommends only very limited interventions.

Particularly instructive is Chapter 6, 'Changes in Marketing Margins and in Producers' Prices'. Marketing margins at the retail level are customarily inflexible or 'sticky', which especially aggravates the short-term fluctuations of producer prices resulting from changes in supply and demand. Consequently the price elasticity of demand is less at the farm gate than at retail or wholesale levels. The more inflexible and the larger the margin the greater will be the proportionate difference between the two elasticities. Allen's interpretation of margins and the implications arising therefrom for policy is illuminating. Margins are not completely beyond the control of individual retailers, even in a highly competitive industry such as fruit and vegetable retailing; margins are sticky because distributors seek stable incomes; in the extreme case where demand is completely inelastic, stable gross incomes of marketing industries will be obtained only through absolutely fixed margins; in the long run inflexible margins, however, will make for more perfect knowledge on the part of buyers and competitors and thus for increased effectiveness of competition; inflexible margins have a destabilizing influence on the production of commodities subject to the cobweb effects; effective control of margins in retailing, however, is impracticable. Chapter 7, 'General Principles of Public Policy on Marketing Costs', is full of refreshing ideas. It is impossible to discuss details, it is worth while reading the book. This also applies to the last four chapters, which deal particularly with the British marketing of fruit and vegetables, fatstock, retail milk distribution, and other topics concerning British marketing.

The book is very informative and stimulating. Allen's reasoning, derived from a fruitful combination of theory and empirical research, urges us constantly to follow his thoughts. The struggle between the liberal ideas of theoreticians and the reality of interventions pushed by politicians and pressure groups, is with us while reading the book. The theoreticians probably are often too liberal, the majority of the politicians definitely too much in favour of intervention. In each country the right proportion of freedom and control has to be found. The book

is worth reading by all who are interested in the marketing of agricultural products not only in Great Britain but also in other countries. It is to be hoped that the author, with his sharp understanding, his independent judgement, and his courageous presentation of his convictions, will continue to work in this field and will eventually present a broadened textbook.

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A. HANAU

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