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BOOK REVIEWS

Distortion of Agricultural Incentives. Edited by THEODORE W. SCHULTZ. (INDIANA UNIVERSITY PRESS, BLOOMINGTON, 1978.) Pp. 343, ISBN 0 253 31806 8.

Professor Schultz has consistently challenged accepted views and patterns of research priorities in the profession, and has set thinking off in new directions, and for this leadership and scholarship he has lately and justly been honoured. In this volume he argues that the most urgent research priority for developing countries in the 1960s, that of lifting biological constraints on food production, has been substantially met with advances in agricultural research and injection of capital. However, another constraint has taken its place: the distortion of agricultural incentives through domestic policies in these countries, which are impeding the adoption of technological innovations and the efficient use of capital. Government interventions, he claims, 'seriously constrain the entrepreneurship of farmers and farm housewives and thereby reduce the efficiency of agriculture'. With his basic premise of the inevitability of economic disequilibria, he considers farmers can cope better than government: a strong plea for the free play of market forces.

These propositions are then considered by a number of distinguished authors and discussants within six major problem areas: agricultural production constraints; resources and environment; distortion of incentives; international markets; research, education and institutions; and growth and equity in policy formation.

Pereira, on production constraints, sides with Shultz in arguing that technical problems in agriculture are now relatively minor, and that the current and pressing need is for social engineering. He blames limited progress on the lack of sustained political interest on the part of governments of developing countries. He observes a confusion of objectives in international aid to agriculture and calls for new institutional approaches to the problems.

H. A. Steppler examines resources and environment and, with a typology for components of agricultural production systems, derives a series of development strategies. Amongst key unsolved problems, he gives climatic control first priority, and provides some useful broad signals for researchers to consider.

Much attention is paid to the distortions themselves. Hopper illustrates some of the deterrents to technical transfer and progress within and between countries.¹ Gilbert Brown provides a useful summary of theory and empirical studies of the effects of distortions in pricing policy in developing countries. He argues the need for more studies in agricultural and general price policy from farm to national levels. Hertford takes three price policy case studies showing negative effects of government intervention on allocative efficiency. Barker examines the issue of barriers to efficient capital investment in agriculture. He con-

¹ He writes evocatively of the opposition to the introduction of the imported HYV seed to India, that was to generate the 'green revolution'. This is now described at first hand by C. Subramaniam in *The New Strategy in Indian Agriculture: the First Decade and After*, by R. T. Shand (ed.), ANU Press, Canberra and Vikas Publishing House, New Delhi, 1979.

tends a bias exists in both private and public investment towards relatively capital-intensive techniques due to market imperfections and to constraints from outmoded institutional and organisational structures in developing countries.

Finally in this section, Martin Abel shows that the remedies that would provide the incentives are known: a higher rice:fertiliser price ratio, exchange rate adjustment, a more appropriate distribution of public capital expenditure between urban/industrial and rural sectors etc.

Gale Johnson examines current criticisms (NIEO) of the functioning of international trade, admits some, but points out that developing countries sacrifice much of the potential advantage of international trade with their domestic policies, e.g. those which add to international instability. He claims that full use of international markets would encourage agricultural production and incomes, and appeals for greater alignment of domestic with world market prices, and for greater use of world prices as guides to domestic resource allocation. Crawford, as a discussant, cautions of frequent difficulties in identifying a world price, e.g. with dumping practices and restrictive import policies. He offers a balancing perspective in this book by arguing that positive government intervention is needed to assist groups disadvantaged in the market.

In the section on agricultural research, education and new institutions, Ruttan presses a case for institutional innovation, and the study of it, in tandem with technical innovation.

Finis Welch focuses on the links between investment in human capital through farmer education, the pace of technical change in agriculture, and high returns in the sector. He reviews the evidence of the productivity of agricultural education and suggests it contributes most fruitfully as an input by improving the allocative efficiency of use of other inputs. In Schultz's terms, it will 'improve the ability to respond to economic disequilibria'. Evenson broadly reviews the state of agricultural research and concludes severely that no first class institution has yet emerged in developing countries.

Finally, Schuh enters the equity versus growth argument. He illustrates how basic needs/equity oriented policies distort resource allocation and inhibit output growth, with examples of food grain price policy (India), trade and exchange rates (Brazil) and land reform (Chile). He criticises multi-purpose rural development programs and advocates separate programs for growth and for distribution objectives. His suggested policy for dealing with the relative income problem, one of transferring population out of agriculture, does not unfortunately offer a feasible solution in the foreseeable future for the most densely populated countries.

There may well be differences of opinion about which constraints on food production are currently the most limiting: the domestic policies cited, or biological, capital supply etc., for it is difficult to generalise across the range of situations in developing countries. There is, however, no doubt that Schultz, his co-organisers and contributors to this volume have highlighted one of the most important. The book covers the main influential areas of policy and assembles persuasive evidence of the negative consequences of decisions for agricultural production. Authors are generally appreciative of the difficulties of achieving change in these policies, but seek to offer constructive, and in some instances innovative, suggestions for remedies and for research to assist in this process. The

book brings together many experts working in the frontier areas of agricultural development economics, and many of the contributions are useful current position papers on significant issues in this field.

Further assistance from developed countries is strongly advocated with suggestions as to appropriate forms. The thrust of the book is not just the argument that obstructive domestic policies in developing countries represent the major deterrent to a fast growth rate of food production. There is also an important implication that the responsibility for the still slow growth rates now lies with the developing countries themselves and not upon developed countries. The onus is placed firmly upon their governments to alter existing policies and/or to create new innovative policies to encourage the entrepreneurship of farmers to emerge and the local creation of new technology and its widespread adoption, and thereby to accelerate the pace of food production.

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International Trade and Agriculture: Theory and Policy. Edited by JIMMYE S. HILLMAN and ANDREW SCHMITZ. (Westview Press, Boulder, Colorado, 1972.) Pp.333, ISBN 0 89158 498 6.

This volume resulted from a symposium on international trade and agriculture at the University of Arizona in April 1977. Despite the 28-month publication delay, most of the papers are still highly relevant. The book is likely to be most useful to economists interested in international agricultural trade policy issues, including students taking agricultural policy courses. Ten of the thirteen papers can be usefully divided into three categories: theoretical papers on the gains from trade, analytical papers looking at contemporary agricultural trade problems, and papers reviewing agricultural trade research to date and stressing the areas requiring further research. These are preceded by an introductory chapter, a useful paper by Eric Ojala which brings together a great deal of statistical data on the importance of trade in world agriculture, and a paper on the implications of the U.S. Trade Act of 1974 for agriculture. The book concludes with a comprehensive (22-page) bibliography of relevant material available up to early 1977.

In the first of the three theoretical chapters, Chambers, Letiche and Schmitz of Berkeley provide a standard treatment of pure trade theory which may be very useful for undergraduate courses in which trade theory has to be covered in less than one term. It includes a particularly good though brief section on uncertainty and instability in world agricultural markets, although a sample of post-1976 references from the rapidly expanding literature on this subject would need to be added for students. Stephen Magee's paper, 'Twenty Paradoxes in International Trade Theory', provides material which should stimulate the interests of the most indifferent of trade theory students, but adds little to agricultural trade theory as such. In fact, none of the papers have extended the frontiers of modern trade theory as it applies to natural resource-based industries such as agriculture—an area that remains much neglected.

The problem-oriented analytical papers cover issues ranging from instability and food reserves to agricultural protectionism, exchange rate

policies and international marketing arrangements. From a teaching point of view they provide topical and straightforward illustrations of economics applied to issues affecting agricultural trade, though no more so than any of dozens of articles in recent professional journals. The chapters by Tim Josling and D. Gale Johnson, like a number of their papers published elsewhere, demonstrate clearly that agricultural protectionism is part of the cause of unstable world prices of agricultural products. Johnson stresses that it is because of the types of trade barriers used, particularly the EEC's variable levy, that prices fluctuate so much. While he sees grain reserves as being able to alleviate some of these fluctuations, he is pessimistic about the extent to which any such alleviation would be followed by reduced barriers to agricultural trade, given that the exceptional stability of world prices in the 1960s was not accompanied by agricultural trade liberalisation.

The chapter by Robbins and Smeal of the U.S. Treasury on exchange rates and U.S. agricultural exports, while not a pathbreaking treatment, serves to remind us of the complexities of the effects of exchange rate changes on agriculture, particularly when support price, variable levy or supply management policies are operating. The macroeconomics of trade is clearly an important area, yet is one that is often neglected by agricultural economists whose training is so heavily concentrated on microeconomics.

The final two chapters provide a brief but useful survey of some empirical studies in international agricultural trade (Andrew Schmitz) and a discussion of the problems involved in doing such studies and the areas needing further research (Ed Schuh). Schuh calls in particular for more explicit recognition of the roles of government and of the macroeconomy in agricultural trade models.

Overall, the book covers a wide range of topics and, for that reason, is likely to provide a ready source of supplementary reading for students of agricultural trade policy—which should include all agricultural policy students in Australia, given that roughly three-quarters of Australian gross farm income is derived from export sales. In addition, it is to be hoped that the book will stimulate more international trade research by Australian agricultural economists.

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Rural Development: Learning from China. By SARTAJ AZIZ. (Macmillan, Melbourne, 1979.) Pp. 201, ISBN 0 333 23441 3 pbk.

In many respects, this is not a conventional study of Chinese economic development. The book, the author states, is written for political leaders and policy makers in the developing countries. It aims at providing a framework for their search for alternative rural development strategies. The author attempts not just to evaluate Chinese rural development but to examine the relevance of China's experience for possible adoption in other developing countries. The result is a compact and well-argued set of propositions which the intended readers should find interesting and worth considering. With extensive background in developing countries, Dr Aziz presents a cautious treatment of the potential and the problems of, and the preconditions for, adopting the Chinese approach elsewhere. Rural development in a few selected countries, such as Japan, Israel and

Tanzania, is also reviewed for contrast. However, the Chinese experience itself, on which his alternative strategies are based, has been treated much less critically. Although Dr Aziz visited China on four occasions between 1967 and 1975, he tends to accept the general official explanations on the objectives and mechanism of rural development without scrutiny. Not that the official explanations are necessarily incorrect but they are very often so vague and broad that they can be interpreted in many different ways. For instance, Dr Aziz asserts that there is only limited use of the price system in China. He states that, 'as a matter of overall policy, the Chinese rely on the planning system and not the price system to balance the demand and supply of various commodities and goods.' But the author offers little explanation as to how effective the policy has been in the rural sector, or how it has been executed. Furthermore, how would diversification of rural activities (one of the key elements in his model), coupled with collective ownership (not State ownership), be accommodated by the planning and price system? Such questions need to be examined closely because the answers to them affect the initial choice of strategies not only for the rural sector but also for the industrial sector as well.

There seems to be another problem with the author's assessment of the Chinese experience. Central to the author's proposed alternative strategies is the objective of the eventual formation of rural collectives, or co-operatives of some kind. Dr Aziz considers the Chinese commune as a synthesis between social and technical transformation as well as the main tool through which modernisation of the countryside can be realised. Though the author does note in passing that the whole rural collectivisation process was not without difficulties, he treats it as if it had been a linear development, with one stage logically giving rise to the next. However, the collectivisation process, which includes the formation of communes in 1958 and the subsequent adjustments, has in fact been associated with intense internal struggle and major changes in China's external environment. In Marxian terms, the direction and pace of the collectivisation process has, at one time, to be changed to transform the production relations so as to promote development of the productive force in the rural sector. At another time, the collectivisation process has to be adjusted so that the productive force can develop in the appropriate production relations. The rapid formation of advanced co-operatives belongs to the first category while the adjustment of the communes after the Great Leap Forward movement belongs to the second one. In the context of studying the relevance of the Chinese experience, an analysis would be necessary. If the Chinese experience is to produce lessons for other developing countries, those lessons learned by the Chinese themselves during this process deserve more attention.

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Agricultural Economics and Agribusiness: An Introduction. By G. L. CRAMER and C. W. JENSEN. (Wiley, New York, 1979.) Pp. 440, ISBN 0 471 04429 6.

This text has been prepared for first year tertiary students taking agricultural economics and agribusiness courses in U.S. institutions.

The text lucidly describes many of the basic economic principles as ap-

plied to agricultural production and some aspects of agricultural commodity marketing, including: the utility basis of demand; single- and two-variable input functions in production decision-making; production costs, supply and price determination; market/price relationships.

The illustrative examples are taken almost entirely from the U.S. or placed in a U.S. setting and for this reason the text will have limited appeal in Australia. For example, at least six of the sixteen chapters are entirely or largely U.S. oriented:

Chapter 2: Dimensions of American agriculture.

Chapter 8: Imperfect competition and market regulation.

Chapter 10: Financial picture of agriculture.

Chapter 11: National resources.

Chapter 12: Agricultural price and income policies.

Chapter 16: Rural development.

The text adopts an economist's approach. For example, chapter 3—Consumer behaviour and demand—generally ignores the behavioural aspects of the topic which would be covered in any basic marketing course given within a business school. Chapter 10—Financial picture of agriculture—covers U.S. sources of farmer credit, and not the business finance techniques used in areas of high risk.

In summary, the text would be useful as a reference for first year agricultural economics students, and for those seeking a simplistic overview of the U.S. system of marketing agricultural commodities. The text would be of limited use to agribusiness students studying within a business school framework.

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Unpriced Values: Decisions without Market Prices. By J. A. SINDEN and A. C. WORRELL. (Wiley-Interscience, New York, 1979.) Pp. 511, ISBN 0 471 02742 1.

Sinden and Worrell set out to persuade decision makers and their advisers that decisions involving unpriced goods and services ('things' in this book) can be made systematically. Such a book is timely for Australia, where there is much controversy over decisions related to freeways, dams, mineral extraction, timber harvesting and park creation, to name but a few developments which have important unpriced outputs.

This reviewer agrees with the authors that much of this controversy would be avoided if the methods of arriving at final decisions were more explicit, because then it could be shown just why one alternative is superior among those that are feasible within political and other constraints. Thus decisions could be improved, while democracy would be defended.

The book is in three parts. The first (six chapters) deals with the concept of 'value' using simple notions of utility and disutility; the underlying rationality axioms are deliberately kept hidden until chapter 7, and even then they make only a fleeting appearance. The influence that the kind of decision has on value, and the influence of value on choice is spelt out patiently, the authors noting in their preface that these are the

concepts that are the most difficult for decision makers, planners and students to comprehend.

The second part (chapters 7 to 17) contains the core of the book. Aimed at the planner or analyst, it gives a taxonomy and review of the vast array of published methods that have been developed to assist in choosing systematically between feasible options. Where possible, the authors illustrate and compare the alternative methods within each taxonomic grouping by applying each method to the same specific data on a given realistic decision problem.

The range of methods includes techniques developed in sociology and psychology through to those more familiar to economists used to observing the revealed behaviour of consumers and producers. Chapter 17 is an interesting account of evaluating social preferences when these are more than simply the aggregation of individual values.

Part 3 is aimed again at the decision maker, rather than the planner. The usual excuses for shunning a systematic approach to decision making are explicated and dispelled. Then some common examples of decisions involving unpriced costs and benefits are analysed using appropriate techniques drawn from part 2. These examples include the values of noise reduction, time, open space, endangered species, gradual change and human life.

The final chapter draws the rest of the book together by using a real Australian example to illustrate how a complicated multi-objective decision problem involving four land use options can be made systematically, using a number of the methods described previously.

Having tackled such a vast field (there are over three hundred references), the authors are forced to abandon any discussion of forecasting, discounting, uncertainty and 'second best'. Also, despite every attempt to specify the logical strengths and weaknesses of methods for particular decision problems, there will be specialists who might expect a more rigorous treatment. For example, the method of evaluating travel time by modal choice (p. 449) appears to be accepted without reservation by the authors, despite valid criticisms by, say, Ian Heggie in his *Modal Choice and the Value of Travel Time* (Clarendon Press, Oxford, 1976, p. 11). Similarly, in recreation evaluation (e.g. p. 472), specialists might argue that the product of an average value for consumer's surplus by numbers of visits in various options could give a bias, since the average consumers' surplus may vary with numbers of visits. The authors, no doubt, have deliberately ignored such refinements for simplicity of exposition, but a disclaimer to this effect would be useful.

Another difficulty, potentially more damaging, is that the common ethical foundation of all the methods reviewed is not even discussed, despite a lengthy treatment of the determinants of individual and social utility in chapters 3 and 4. The ethic implicitly adopted in this book is that things have value only to the extent that they are valued by human beings. Although this ethic is sufficiently widely accepted to maintain the book's credibility and relevance, there are objections, particularly by conservationists, that things may have value in their own right (see, for example, C. D. Stone's *Should Trees Have Standing?*, Kaufmann, Los Altos, 1974). If such a view is adopted, this book can be discarded altogether, so the question is not a minor one and should have been discussed.

The writing style is clear, if a trifle dry; the headings are helpful, though occasionally too frequent; the diagrams and tables are first rate and very helpful in a book of this kind. The number of typographical errors is negligible.

Overall, the authors have achieved their aims admirably. The book can be recommended to all decision makers and planners (and students) in all fields where unpriced outputs are important.

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