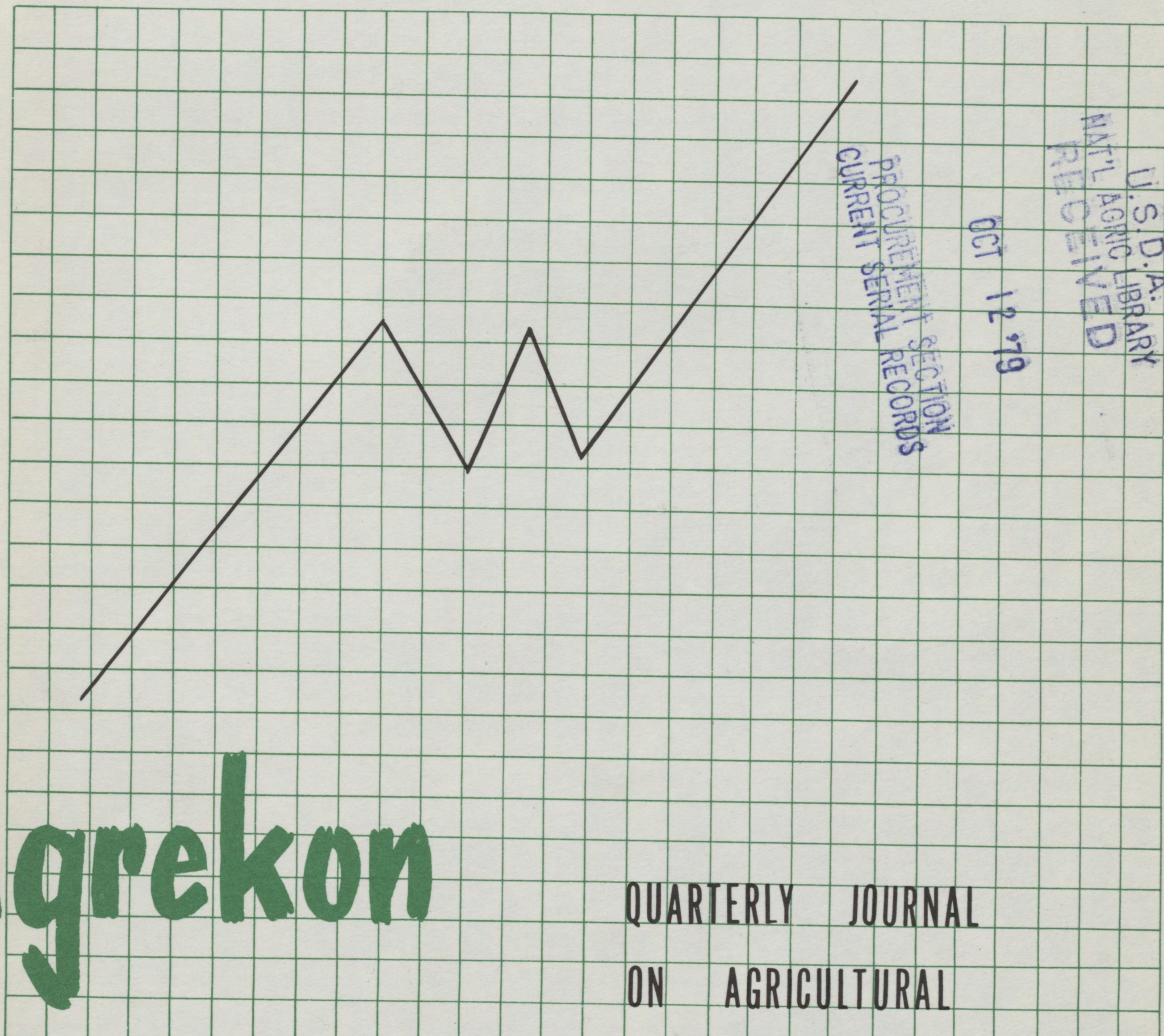
Vol. 18 No. 2
APRIL 1979

Price 40c



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QUARTERLY JOURNAL
ON AGRICULTURAL
ECONOMICS

Issued by the Department of Agricultural Economics and Marketing, Pretoria

THE CASE FOR STATE INTERVENTION IN AGRICULTURE

by

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1. INTRODUCTION

As man developed within his primitive communities and evolved more advanced forms of society and nations and states, as he started specialising through division of labour and turned his subsistence economy into our complex modern economy, so did he progress in his farming activities until agriculture is today, in the so-called developed countries, a highly specialized and technical industry within an equally specialized and all-pervading governmental system.

On our globe today, we find communities and economies in all stages of development. Accordingly, we find systems of government and agricultural industries in all stages of development too. In most countries we find government intervention in many walks of life and many facets of the economy, including agriculture. Some people feel that in the so-called developed countries there is more government intervention than in the less developed countries and that the degree of intervention increases as a country develops. On that I do not venture to give an opinion, because it is a moot point whether the farmer in a primitive tribal unit where his chief tells him when and what to plant is subject to more or less control than the farmer in a highly developed country like the USA. What is true, of course, is that in the centrally controlled economies, be they developed or underdeveloped, there is more government control than in the so-called capitalist or free enterprise economies, in whatever state of development they are. This arises from the divergent philosophies underlying the two systems. This is illustrated most aptly in viewpoints held by governments in power at the moment in the so-called "free world". In a policy paper on industrial development and adjustment submitted by the British Government to Parliament in 1976 it is admitted that, generally speaking, profitability and return on capital are the best prima facie indicators of where available resources should go. But "the process of resource allocation through the price mechanism does not ensure an adequate level of aggregate demand and employment, nor produce an acceptable distribution of income or cause resources to be set aside for public services. All these are mainly functions of Government, not the market". This is the typical socialist approach. In a document submitted by the Federal Republic of Germany on the European Economic Community's structural policy for industry to a Council meeting of the EEC in May last year, the opposite view is expressed, i.e. that no government can by central intervention, whether through taxation, planning or subsidy, produce a better result than the market.

The best expression of the compromise situation we have in most developed countries today is, however, contained in an annex to the communique issued after the Ministerial Council of the OECD (Organisation for Economic Co-operation and Development) on 14 and 15 June 1978. In this a minor degree of government intervention is accepted but a strong case made out against direct and detailed intervention in the economies. It is stated in this official document, approved by the Ministers of some 20 developed countries that "in order to increase the ability of the economy to adjust to new conditions, governments could do more to reduce the uncertainties and the additional costs caused by their own policy actions. This implies efforts to avoid unnecessary regulation and reporting requirements, and to maintain better co-ordination, clarity and continuity in government regulations, including those regarding safety, health and the environment". This document reflects the compromise between the socialist and capitalist systems which exist in all developed countries today, including our own.

The above quotations merely show that today we find varying degrees of state intervention in the economies of all countries. The degree of intervention is supposed to decrease from the communist country, through the socialist country to the so-called capitalist country. Our own country is professedly at the latter end of this economic spectrum and, therefore, is supposed to have less state intervention in the economy than most countries. We are amongst the "freer" of the "free" economies.

Having shown that state intervention is the rule today, rather than the exception, I now have to make out a case for it. Fortunately, I do not have to make out a case for state intervention in all sectors of the economy, which is what we have today, but which I cannot defend or justify so easily. The purpose of my contribution is merely to make out a case for government intervention in one specific sector, the agricultural sector. And that I can do with complete and utter conviction, not perhaps for all time, but definitely for the past and the present and medium term future, perhaps not so convincingly for all countries, but definitely so for South Africa.

But before I do this, I wish to define certain terms, because in our present world clarity about terminology is of the essence, since well-known words like democracy, freedom, government intervention, etc. have completely different meanings to different people and in different countries. I wish to distinguish clearly between government intervention and government interference. I define "government intervention" as government action on behalf of a certain section of the population or the population as a whole at the request of that group or the whole and for the purpose and indeed the effect of assisting that group or the whole. "Government interference" I define as any government action not complying with the above. Government intervention or interference in what? Generally, of course, in the normal operation of the economic laws and the free market mechanism, but for the purpose of this paper intervention or interference in any facet of the agricultural industry. I admit immediately that intervention on behalf of one sector may mean interference in another. But at least we should be clear from the point of view of any particular sector, whether any government action constitutes intervention or interference. In agriculture, as in other sectors, we have both.

Now, I am not going to make out a case for government interference in agriculture - that is a task for someone else. I am only going to make out a case for government intervention on behalf of agriculture and as far as that may mean government interference in other sectors I shall attempt to make out a case for that as well.

2. REASONS FOR GOVERNMENT INTERVENTION IN AGRICULTURE AND THEIR EVALUATION

The reasons why governments are pressed by farmers to intervene and why governments accede to such requests to a greater or lesser degree in all countries are few but weighty.

2.1 Operation of the law of supply and demand

Most problems centre round the normal operation of this law - particularly in the short term - which has devastating effects in agriculture. In a free economy supply and demand are equated through the price mechanism in a free market place. The wide and rapid fluctuation of agricultural prices, the occurrence now and again of practically unsaleable surpluses or acute shortages, are all part of the same problem. The fundamental underlying reasons are well known, i.e. that demand is inelastic for many products and that production cannot in the short term be adjusted. There are people who question whether these factors are outside the control of producers. But it has been proved by so many campaigns to reduce prices and promote sales that very little can be achieved. The Chairman of the Egg Control Board said recently that a 10 % change in price up or down, brings about a 1 % change in consumption. A serious shortcoming in our whole marketing set-up is that the price-consumption elasticity is known in relatively few cases. But even if this elasticity is high, the fact still remains that certain fixed cost elements like transport, processing and distribution form such a large factor that a 10 % price reduction at consumer level, means an inordinately high reduction of the farmer's price. If the price of bread in Canada has to be reduced by 15 % it means that the wheat farmer gets nothing at all for his wheat. In any case, no matter by how much the price is reduced, a point is reached where the market is saturated and you cannot even give bread away free. The demand for food per person simply has a more definite limit than that for say cars or clothes. The popular cry of housewives: "Reduce the price and you will sell more" is a hollow one if you cannot clear stocks unless the farmer's price drops to below costs of production. In any case, from a purely economic point of view, it is crass stupidity on the part of a farmer to take two potatoes out of the ground and send them to market if by so doing he gets less than he would have got by leaving one in the ground and sending only one to market. So much for the demand side.

On the production side farmers can in the long run reduce or increase supplies by adjusting the area of land used and the inputs. But in the short term they have no control. They can plant fewer acres, as often happened in America, and produce more. In South Africa the weather is such an overriding factor in the production of a wide range of agricultural products that adjustment of inputs within fairly large limits will not guarantee any effect on output. Of course, if you plant nothing, you will reap nothing, but even if you plant only half you cannot guarantee that you will not reap more.

Because of the difficulty of adjusting supply and demand in the short term, we have these violent price fluctuations under the free market system. Now some of you may argue that temperatures fluctuate greatly and lots of other things, so why not farmers' prices. There may be economic reasons for calling violent price fluctuations in agriculture a bad thing, or maybe even a good thing, but I am not even trying to argue that point. All I know is that farmers have never liked it, do not like it now and will never accept it as a normal occurrence under one of our oldest and best-known economic laws. The same applies to processors, distributors and most factors in between right down to the final consumer.

The effect of the normal operation of the free market in the case of most agricultural products is surpluses and shortages, discontinuation and restarting of production and a measure of uncertainty which may have been acceptable in previous ages, but certainly not today.

Agriculture is not the only sector having problems with the free operation of the law of supply and demand - there are others such as the producers of tin, copper, etc. But in the mining industry they undoubtedly have greater control over production than in agriculture (except perhaps in the old type of diamond digging). As, however, the whole world now-a-days considers that there should be intervention on behalf of those mining products too, we can certainly claim that agriculture has a better case.

2.2 The farmer's weakness in the market place

Another reason why farmers the world over press for assistance by government is their fundamental weakness in the market place. By the very nature of their occupation they are usually far from the big centres of consumption and from sources of information about the market situation. In addition, farmers always find themselves vastly outnumbering those who buy their products, be they processors or traders. In primitive small economies when all farmers could literally take their products to a market place in a city where all consumers of that city usually gathered, this problem did not exist. But with the replacement of the city states by bigger units and bigger economies, direct contact between farmer and consumer practically disappeared. The result was thousands or millions of individual farmers in a country mostly completely ignorant of the market situation, groping around frantically for one of a relatively small number of buyers of their product. This situation certainly warranted government intervention in the past. Whether the case is still so strong now-a-days with modern communication systems and existing group-forming methods is doubtful.

2.3 The farmer's position in a developing economy

In any developing economy there is an inherent tendency for the farmer to drop behind the rest economically. This phenomenon arises once again from the limited demand of a human being for food and an insatiable demand for other goods and services. To illustrate the position very simply, let us take a fairly undeveloped completely isolated country in a state of equilibrium with half the population engaged in agriculture and half in other sectors and where half the total income is spent on agricultural products and half on other goods and services, the average per capita income being on a par for agriculture and the rest. Consider the same country after say three decades of a fair rate of economic development. By this time the population will probably have doubled, the national income increased sixfold and the per capita income trebled. If everybody was well-fed thirty years ago when he spent half his then income on food, he certainly will not be spending half on food now, perhaps a little more than the one-sixth of his present income which was his expenditure then, because he will be overeating and using more expensive food items in doing so. But even if he spent twice as much on food now, i.e. one-third of his present income, the farmers' slice of the new cake will be much smaller. If half of the population is still engaged in agriculture, the per capita income of farmers will be lagging far behind that of the rest of the population, will, in fact, be only half that of the rest. Unless the percentage of the population engaged in agriculture diminishes constantly in pace with the percentage of the national income spent on agricultural products, the relative position of the farmer via-à-vis his countrymen in other sectors must deteriorate. As we all know, it is very difficult to squeeze farmers out of their profession by tightening the economic screw. The very fact that they do fall behind naturally, hastens and promotes their departure. But not always to the extent necessary to maintain parity of income.

In this respect we must not forget that farmers' increasing efficiency aggravates the problem. In most countries of the world it takes fewer and fewer farmers over time to feed more and more other people, so that apart from the development sketched above, a faster dwindling percentage of a population is necessary to provide its food requirements than to provide its other needs.

This problem of falling parity for farmers does require sympathetic government action, but whether this should have the aim of making life more bearable for the normal unnecessarily high proportion of farmers or should aim at getting some of them out more easily and less painfully, remains a difficult question to which agricultural economists will have to give more attention.

2.4 Long-term considerations in agriculture

Lastly we have the problem that the entrepreneur is mainly concerned with getting a good return on his enterprise, labour and capital during his lifetime. He will definitely consider the interests of his immediate heirs, but it is hardly his task to make sacrifices in the long-term interests of his successors a century hence or of the country as a whole. It cannot be expected of a farmer who is a capitalist and a free enterpriser not to consider himself, but to eke out a mere existence in order that the country's future food production potential be left unimpaired. Conservation farming and care of the environment often bring about expenditure and capital investment which will not yield returns in this or the next generation. Failure to provide for this leads inevitably to ruining of the soil and other natural resources. Other sectors have the same problem to a lesser extent. Man being what he is, will most certainly under a completely free economy and left entirely to his own devices, produce maximum production under a given set of circumstances, but cannot be relied upon to give himself short change in order to ensure continued production for future generations. A case for government intervention for this reason therefore exists for more sectors, but particularly for agriculture.

I have now covered the main reasons, not all of the same weight, but all of them quite valid, for government intervention on behalf of agriculture and more especially agriculture in South Africa.

3. GOVERNMENT INTERVENTION IN AGRICULTURE IN SOUTH AFRICA

Whether the case for intervention has been made out convincingly above or not, it has been accepted as sound and valid by all South African Governments ever since the establishment of any form of conventional government except perhaps at the very beginning of the settlement at the Cape when the Dutch East India Company tried to protect its own company farms and gardens against competition from the free burghers when supplying ships in Table Bay. That of course was interference as far as the free burghers were concerned.

I do not want to go too far back into history, however, but to get to the present position as quickly as possible. Government intervention took several forms and started on the production front, later escalating significantly on the marketing front.

3.1 Production measures

At an early stage the Government intervened in the ordinary economic process of agricultural development by giving the industry assistance by way of research, physical combat of pests and diseases, extension services, provision of water, cleansing of orchards, culling of inferior bulls, control of noxious weeds, fencing of farms, erection of soil conservation works, etc. This help was given to agriculture over and above training facilities, provision of infrastructure, and administrative services, which were rendered to all sectors. They were granted at the request of the farming community and helped them substantially without really causing interference with other sectors. Many of the measures still apply today and are very helpful, though the reasons for their existence may not in all cases be as urgent and cogent today as in pevious decades. New ones were added later like fertilizer subsidies and rebates on excise duties. I specifically do not mention tax concessions, for although we have a fairly good taxation system for the farming sector, it is at present not quite as favourable as in some comparable countries like Australia and New Zealand and certainly not nearly as good as the special taxation system enjoyed by the mining industry in our own country.

3.2 Measures in the marketing field

As subsistence farming changed into commercial farming and became an important export industry, pressure became strong for government intervention on the marketing side. A first step in this direction was the government sponsored formation of co-operatives. In fact farmers are probably the only section of the community not only allowed by law to form monopolies, but actively encouraged and helped by a special section of the civil service to do so. Co-operatives helped tremendously to strengthen the farmer's bargaining position in the market place. They are voluntary organisations, however, and even a small percentage of farmers outside a co-operative can nullify its efforts to do the best for its producers. Even forcing a small minority (of less than 25 %) to market through the co-operative, did not provide the full answer to farmers' marketing problems.

The pressure thus got stronger for additional measures in the marketing field which in due course the Government granted by way of special enactments for different commodities which eventually led to a single enabling enactment, the Marketing Act, under which a marketing scheme for almost any agriculture product may be introduced within certain parameters and constraints. Products like sugar, timber and wattle bark, the marketing of which does not fall under the Minister of Agriculture, still have their own separate Acts.

Whereas co-operative marketing formed part and parcel of the private enterprise system and its operation, except for compulsary powers in respect of a few non-food products, did not constitute interference in other sectors, it remains the ideal form of agricultural marketing. Admittedly the other sectors objected to so-called unfair competition because co-operatives did not pay the same income tax, was not financed in the same way as other companies and enjoyed some other minor privileges. However, this matter will soon be rectified with the removal of both privileges and certain restrictions - the latter, of course, seldom heard about.

In contrast with co-operative marketing the new control board system under the Marketing Act was a drastic intervention measure by the government and did in fact constitute serious interference in some other sectors, much to their chagrin to this day.

It is impossible to evaluate the efficacy of all intervention measures under the Marketing Act in a paper of this nature. Suffice it to say that the principle involved has been vindicated by several commissions appointed by different South African governments in different economic circumstances. On certain details there always have been and always will be differences of opinion.

I do wish to point out, however, that every scheme introduced so far has been introduced at the behest of the farmers concerned and that they have not yet requested the withdrawal of a single scheme.

3.3 Other measures

Of later vintage than the Marketing Act, there are further intervention measures, i.e. price control of certain agricultural inputs like fertilizer, fuel and stock feeds (the latter since lifted). These constitute grave interference in other sectors, but farmers are pressing for more such price control.

It is difficult for farmers to understand why more other prices cannot be controlled when so many of their own are controlled. It is also difficult for them to understand the difference between price control for say maize on the one hand and fertilizer on the other hand. But, of course, the two price controls are for directly opposite reasons. In the case of maize or any agricultural product the basic aim of the whole exercise is to get a better price for the farmer than he would be able to get under a free market system. I have no doubt that at times like the war years, the control board system may have been used to keep certain agricultural prices below the level they would have attained in a free market. But that was not the aim and purpose of the control board system. In the case of inputs like fertilizer the aim definitely is to depress the manufacturers price below the level he would be able to attain in a free market. When the objects are so different the system of price control must naturally be different.

The underlying argument when farmers press for price control of inputs is that if the farmer's margin is squeezed and he is in danger of being forced out of production, his input suppliers should make some sacrifice in their margins too, because the welfare of their industry is dependent on that of the farming industry. From the other side, it could be argued that if the less efficient farmers dropped out and the better ones took over, they would sell more fertilizer and not less.

4. CHALLENGES FOR AGRICULTURAL ECONOMISTS

Having dealt with the case for state intervention in agriculture and having mentioned briefly the measures employed by the State to intervene, we now come to the tasks for agricultural economists in this regard.

The tasks are manifold indeed. Amongst those that must have sprung to your minds immediately as you listened to me, are the following:

4.1 The reasons advanced for state intervention must be analyzed and evaluated continuously to determine their current validity. For instance, if organised agriculture's advice to farmers should ever be followed and carried out fully, the producers of every single commodity would be organised in such a powerful co-operative monopoly that it could virtually dictate prices. Control boards for their present purposes would be superfluous and the government would have to apply anti-monopolistic measures to prevent the farmers exploiting and holding to ransom the rest of the population. I would then be the happiest man in the world.

4.2 Having kept abreast of the really valid reasons for state intervention in agriculture at any time, the whole range of existing intervention measures should be reviewed to determine which ones serve their purpose and which ones do not and can be dispensed with.

4.3 They should examine at all times the whole range of alternative intervention measures designed to achieve a certain valid object and identify those most compatible with a free enterprise system, i.e. those constituting the least interference while remaining effective.

4.4 They should go through all schemes under the Marketing Act with a very fine comb to determine whether they serve their purpose. It is often argued that any form of control is better than nothing. But a cost-benefit study should be undertaken in every case to see, for instance, whether the degree of control exercised by the Potato Board or the Cotton or any other board is effective and really helpful and worthwhile.

4.5 Agricultural economists should take a critical look at the range of subsidies in agriculture to determine whether they serve a purpose and, if so, are applied at the right places in the right proportions.

4.6 The last and most important task, however, is to find ways and means of maintaining a healthy agricultural industry, if possible, without any need at all for state assistance and state intervention.