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STRATEGIC PLANNING - AN ECONOMIC VIEW OF THE AGRICULTURAL SECTOR*

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I

The theme of this paper may be summed up as follows: The economic position of the agricultural community has to an increasing extent become integrated with the general economic circumstances of South Africa and has been fundamentally influenced by the general development strategy followed over the past quarter of a century in South Africa. The agricultural community as such, thus has a great interest in the determination of South Africa's general economic policies. The question that arises is what the essence of the economic development strategy has been to date, how it has affected the agricultural community and what the merits are of alternative economic development strategies as we move into the future.

II

The economic life of South Africa is *pluralistic* by nature. The usual meaning of this term refers to a situation in which a significant variety of subjects or decision makers act each in terms of his own subjective, but relatively independent purposes in life. The opposite sort of community is the *monistic* one, in which, in theory at least, all the members of the community subject themselves *fully* to the so-called common interest (defined by the führer), which embraces their total living conditions. (Deviants in a monistic situation are liquidated in less pleasant ways than through the insolvency courts!) South Africa is not that kind of country. The character of its economic life is pluralistic.

The implication of this pluralism is that every subject primarily promotes his own affairs and serves his own interests, however broad and philanthropic those interests may be. Incidentally, there is a surprising degree of misunderstanding about this amongst some critics of the so-called free market system. Even if I am digressing here, it is worth clearing up the misconception. The fact that a free and responsible person looks after his own interests and acts in terms of his own conception of what is right and profitable, does not automatically make him egocentric, selfish, grasping, a miser and an exploiter. The free market principle therefore does not demand that its participants be grasping misers. It does require them to look after their own interests, whatever they may be, in an economically responsible way and not to expect someone else, usually the State, to do this for them. The market economy can therefore function equally well in a community of misers as in a community of people with a highly developed sense of sharing. Indeed, in the latter sort of community it would yield much more impressive results. This, however, is by the way.

The point of departure in one's concept of the economic life of South Africa is therefore that it consists of some eight million economically active people, each looking after his own interests as best he can. Each does this basically through specialisation and operates as an employee, or an entrepreneur, or sometimes simply as the lessor or lender of capital in the form of land or finance. He allows himself to be guided in this by the behaviour of the prices of his outputs, as his earnings, and of his inputs, as his costs. The reason why prices guide his actions is the profit motive, another feature of our economic system which is completely misunderstood by some well meaning but misguided critics. The basic meaning of profit is of course *added value*, that is the difference between the gross advantages of transactions and their gross disadvantages. Indeed, this is the way Paul used the term in his epistles. Only when the market economy and its price determining mechanisms are prevented from functioning smoothly do surpluses arise which constitute profits only in a juridical sense but not in an economic sense. Such surpluses merely represent transfers of wealth from one person to another without any added value having been created.

Specialisation creates more labour productivity and commerce creates the opportunity for this productivity to be converted into income. Without commerce the productivity which arises out of specialisation is useless. This is the good news. The bad news, at least for the farmer-producer, is that the system of commerce works well on the basis of price guides - that is to say, keeps profits within the bounds of added value - *if there is effective competition*. Competition is to the free market much what the referee is to a rugby match. Without the referee the game would lose its discipline and character.

Commerce also leads to functional integration and with the increasing specialisation comes mechanisation, greater production technology and, what is more, also the functional integration of all participants' activities with each others'. I wish to emphasise the term *functional* integration, as

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opposed to *institutional* integration, which stresses the merging of control over the functions of production and commerce. Our economy is therefore characterised, in principle at least, by the functional integration and institutional segregation of the participants. In this difference lies the formula for the vitality of our sort of economic system, but naturally it also holds the seed of conflict between individual and group interests.

The potential for economic growth naturally creates the means for the formation of economic power and the potential for conflict provides a strong motive for the exercising and acquiring of private economic power. Eventually the power struggle becomes so important that interest groups also consider the possibility of using their position of political power to obtain the upper hand in the economic field. In this exercise of private and political power in place of pure commercial competition, the price mechanism can lose its value as an effective regulator of specialisation, or, as modern economists put it, of the optimal allocation of production factors. If this happened, democracy would have destroyed the effectiveness of the market economy. It is, however, up to us to decide whether we wish to allow such a catastrophe to occur.

III

Agriculture, as an important sector in the South African economy, is aware of all these circumstances. Today our farming community is functionally highly specialised, not only in the sense of practising monoculture, but also of mechanisation and high production technology. It is therefore self-evident that our farming community has become extremely dependent on commerce and the movement of prices. The farmers' great dependence on the effective and stable functioning of the general market economy has on the output side of his production become so great that the average farming family today differs little from the average city family, which produces very little of its requirements itself and is fully dependent for its needs on the purchasing power of the cash income which it earns in the market. But in the past decade or two the most important structural change - in the direction of integration - has taken place on the input side of the farmer's production. Whereas the cost of inputs in the early 1960's still accounted for on average 65 per cent of gross production, by the 1980's it had reached 80 per cent. In the meantime gross production per hectare or per farmer has naturally increased so that the conclusion cannot be drawn that farming has become less *profitable*. It may well be said that the smaller percentage of surplus receipts over costs has made farming more *risky* in the sense that a pincer action can lead to total losses more easily than before.

The welfare of the agricultural community in South Africa has thus become fully integrated with the general economic conditions in the country. What happens in the rest of the economy in matters such as general economic growth and general inflation therefore has a direct and far-reaching influence on the welfare of the agricultural community. Conversely, changes in the economic circumstances of the farming community have a direct and far-reaching influence on the rest of the inhabitants of South Africa.

IV

Has this increasing economic integration of the agricultural community into the rest of the country's economic life been to the benefit of the agricultural community? Has it in fact benefited according to theoretical expectations? I think that in general the answer is positive. It is true that over the past few decades the terms of trade between agriculture and the rest of the economy has deteriorated to the tune of about 20 per cent, but this decline has been accompanied by an increase in the productivity of labour and capital in agriculture of more than 45 per cent and 30 per cent respectively. By comparison productivity in the rest of the economy and particularly in industry has risen much more slowly over the same period - by scarcely 25 per cent. To a great extent the decline in the terms of trade corresponds to the difference in the improvement in productivity in agriculture and in industry. The relative share of agriculture in the gross domestic product has consequently shown little change. The increase in income in agriculture has roughly kept pace with that in the economy in general.

On the other hand, this progress has not been such as to stem a very significant migration of employees and employers from the agricultural industry. Indeed, the higher productivity of labour is statistically partly attributable to an absolute decline in the size of the agricultural labour force over the past decade. This movement of people away from the agricultural industry naturally stems partly from the attractiveness of urban economic opportunities, but more particularly from the unprofitability of many smaller farming units in which the fixed cost per unit of production has simply become too high. The yields per farming unit in South Africa are extremely unevenly distributed and with the disappearance of smaller undertakings from agriculture, the average productivity of the industry as a whole will naturally improve automatically.

These trends correspond to what should be expected in a process of general economic development characterised by urbanisation of the population and industrialisation based on an industrial protection policy aimed at import replacement. This is the so-called over-population situation in which the programme of industrial development sets the tone of employment and developments in agriculture are mainly a secondary result of industrial development and urbanisation.

The question may be asked why the emphasis in development should not remain on agriculture (and mining). The answer to this appears to be manufacturing's greater direct employment potential and particularly the more even distribution of income in manufacturing. So when the policy problem is the creation of employment and the distribution of income, the democratic state will automatically move in the direction of industrialisation.

Can these structural tendencies persist in the 1980's? Should we expect a further long cycle of protection of import replacing industries, further rises in production costs with little increase in industrial productivity, further weakening of the agriculture/industry terms of trade, and emigration of submarginal producers out of agriculture with a consequent increase in average yield per farming unit on which the weaker productivity in the industrial sector can feed? Before discussing the desirability of the matter, it should be stated that there is indeed room for such a cycle. The average productivity per farming unit in agriculture can probably still be increased, particularly through the further emigration of less-efficient small farmers, so as to afford the cost-increasing protection of industries a little more scope, and the terms of trade of agriculture can come down another couple of percentage points.

There is, however, an important economic limit to this sort of economic development formula based on import-replacing industrial development and *this is the threat which it poses to the competitive capacity of the export sections of the South African economy* amongst which agriculture figures prominently. Although exports of agricultural products in both unprocessed and processed forms showed a declining trend as a percentage of the total exports of goods in the post-war period, they still comprise about one third of total exports of goods (gold excluded). The given world prices for processed and unprocessed South African agricultural products therefore place a ceiling on the extent to which the costs of industrial protection in South Africa can be shifted on to the local agricultural sector, particularly if the Government is not prepared to subsidise agricultural exports from other sources. The strategy therefore reaches a point at which the agricultural terms of trade will have to decrease so severely to absorb domestic industrialisation costs that the emigration from agriculture will not continue to be restricted to unproductive small farmers.

It is relevant here to mention that the mining sector, and in particular gold mining, has of course also been subject to the same cost pressure because of the industrialisation process. Mining consequently also saw a drop in its terms of trade with the rest of the economy during the 1960's. The problem, at least in the gold mining industry, was countered by cutting lower grade ores out of the production process. However, the world prices of mineral products rose during the 1970's to such an extent that the average grade of ore mined could be reduced again in order to lengthen the lives of the mines concerned.

As regards agriculture, the question in any case is whether such sustained weakening in the terms of trade and emigration of small farmers, black and white, is the most effective policy strategy for South Africa for the remainder of the century. Is there not an alternative strategy which will not only promote the more productive application of the country's resources, but will also achieve a socio-politically more manageable distribution of the population? I think so.

It is a recognised and fairly widely known theoretical doctrine that the stimulation of industrial development by means of direct or indirect import replacing measures is a controversial measure. For the problem of general unemployment in a community, the adjustment of that community's rate of exchange with the rest of the world is an economically more effective remedy. Depreciation in the rate of exchange in conditions of general *under*-employment of production factors brings about a relative increase in the cost of *all* imported products, or a relative drop in *all* domestic costs in relation to other countries', so that the market mechanism can indicate across the entire spectrum of production possibilities in which direction economic expansion will have the greatest income-creating effect. (The problematical question, however, remains whether this method will put the market mechanism into a position to support the sort of expansions which will lead to the most politically acceptable distribution of income.)

The only truly valid economic argument in favour of special protection for particular industries, outside that of temporary "dumping" from abroad, is the so-called "education argument". This argument is based on the premise that certain types of production processes only reach their optimum levels at high turnovers and they must therefore be *provisionally* protected in order to reach that level. When the level of production has been reached, the industry concerned will be able to compete on an equal footing with its competitors in the international market. In other words, the objective is eventually to place the emphasis of development on production processes *which can compete in the international market* - that is to say, industries which at first are import replacing, but which eventually become export promoting in nature.

In so far as this basic rule is applied, the effect of industrial development on the economic circumstances of the agricultural community should be favourable. There should therefore be no reason why productivity in the industrial sector should remain behind that in the agricultural or mining sectors. Consequently, agriculture need not subsidise employment in the industrial sector, nor need agriculture's terms of trade continue to decline. If under these conditions there is still general unemployment among employable, economically active people and this unemployment takes on large-scale proportions, the soundest therapy must be sought in the framework of macro-economic fiscal and monetary actions.

It is necessary in conclusion to refer to the fact that the basic policy philosophy on which industrial protection in South Africa is supposed to rest has always recognised in principle this condition regarding the competitiveness of South African exports, particularly in respect of the mining industry. This philosophy is now being strongly emphasised in the report of the (Kleu) study group on strategy for industial development. The report outlines in detail the history of this philosophy as contained in various reports of commissions over the past half-century. (See paragraphs 2.37 to 2.55 of the Kleu Report.) The fact that the economics of agriculture provide just as important a limiting factor for industrial policy as do the economics of mining is, however, seldom so expressly acknowledged in this history of industrial policy. And as the record of the terms of trade in agriculture suggests, this policy philosophy is also not fully complied with in practice. If, therefore, in future more emphasis is laid on the sound basic principles once again stressed in the Kleu Report, there should be the prospect of a much better dispensation for the agricultural community.