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## **SOME CONSIDERATIONS ON ECONOMIC POLICY OPTIONS FOR AGRICULTURAL RESTRUCTURING IN SOUTH(ERN) AFRICA**

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### **Abstract**

This article starts with a statement on basic values and principles of common acceptance which seems to be emerging from the current debate in South Africa. The present agricultural situation is analysed, especially as it relates to agricultural land use, agricultural production and resource productivity and economic, environmental and ecological sustainability criteria. This article also considers some interim options from a security of expectations viewpoint.

### **Uittreksel**

#### **Enkele oorewegings rakende ekonomiese beleidsopsies vir landboukundige herstrukturering in Suid(er)-Afrika**

Die artikel begin met 'n verklaring oor basiese waardes en beginsels van algemene aanvaarding wat klaarblyklik uit die huidige debat in Suid-Afrika na vore kom. Die huidige landbousituasie word ontleed, veral met betrekking tot grondgebruik, landbouproduksie, hulpbronproduktiwiteit en ekonomiese omgewings en ekologiese oorewegingskriteria. Die artikel ooreweeg ook sekere tussentydse opsies vanuit 'n oogpunt van sekerheid van verwagtings.

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### **1. Framework of analysis**

Future economic policies and strategies for agricultural development in South Africa depend on principles and objectives derived from basic political, economic, environmental, technical and social considerations. Although we find ourselves in a rapid changing environment it can be predicted with a reasonable degree of certainty that future directions will allow for "equal rights" to all South Africans. This viewpoint can be translated into policy directions which would promote equal access to all those who would like to farm in a future South Africa, to production factors such as land and finance, as well as to the required support services and opportunities. It can further be assumed that some form of affirmative action would have to be provided to those who were historically denied access to ensure fair entitlement to farming opportunities.

However, there is a danger to move too quickly towards spelling out new policy options, as this might ignore fundamental problems presently experienced within the agricultural sector. "Quick Fix" options will certainly also overlook the importance and necessity to direct a new policy towards agricultural restructuring on a consensus of basic values, principles and objectives.

This paper starts with a statement on basic values and principles of common acceptance which seems to be emerging from the current debate. The present agricultural situation in Southern Africa will be analysed, especially as it relates to agricultural land use, agricultural production and resource productivity, and economic, environmental and ecological sustainability criteria. The paper also considers some options from a security of expectations viewpoint.

### **2. Values, ethics and agriculture<sup>1</sup>**

A vital element in South African dialogue today is an explicit consideration of ethics and values. The critical issue in the country and for agriculture, is the very nature of a future South African society. In the rural and agricultural environment current debate revolves around land rights and types of production systems. However, the most fundamental aspect of South African reform is ethical and not legal, material or organizational. It would therefore seem that the debate on agricultural restructuring and rural structures, and as a matter of fact the restructuring of the South African society as a whole, requires that the ethical basis for the future be placed on the agenda for open discussion.

Within the context of agricultural policy it can be argued that future agriculture and rural structures should serve a just society in South Africa. A fair or just society, however, is fundamentally based on an ethical view of society. As a point of departure, the "first round" consensus developing in the South African society that the "new" South Africa should be democratic, non-racist and non-sexist, could be used. For the purpose of the discussion of ethics and values which would influence the rural and agricultural structure of the future, three domains are identified as relevant, viz political, social economics.

It can be argued that equality is the accepted norm in the political and social domains. This includes equal access to rights under the law, equal participation in society and politics, and equal access to social services and public goods.

In the economic domain, however, current debate indicates that the concept of equality needs to be qualified to enable the process of the allocation of scarce production factors to op-

timise the satisfaction of needs of the society. In the absence of an effective mechanism to reward those who are more productive in producing goods and services to society, it is feared, and experience also show, that equality in reward, irrespective of effort, often ends in equality of misery! It is therefore proposed that the norm of equity, i.e. rewards in proportion to some socially accepted measure of effort, be accepted to ensure a productive exploitation of the right to equal economic opportunity.

The above norms and their interrelationship might possibly be considered as a first and most fundamental level of common ethical belief emerging in South Africa. Simply stated the equality proposition in the social and political domains asserts that every human being is of equal worth merely as a result of their humanity and that the fabric of society and the politics must be woven to fit each person in equal measure.

Differentiation or equity in economic reward on the other hand captures the ethic that rewards ought to be proportional to effort and intention.

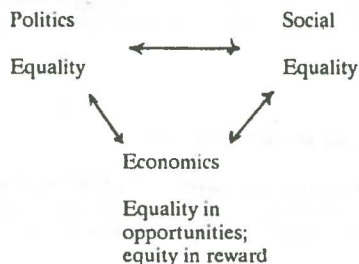


Figure 1: Domains for ethical interaction

In attending to economic policy options the point is thus clear that norms and values as they relate to the political and social domains cannot be ignored. The relation between agricultural policy and these domains will now briefly be discussed.

A basic expectation is the right of equal opportunity. All persons should have the opportunity to advance themselves to the limits of their capabilities and aspirations. The labour market must therefore be differentiated on the basis of merit and performance and not on other basis.

The goal of equal opportunity raises a derivative concern in South Africa. Enormous differentials in capability exist today as the result of apartheid and its precursors of social discrimination. Simply ensuring an equal chance at the future is insufficient when the capabilities of many have been artificially lowered by past discrimination. In South Africa one must supplement equal opportunity with the right to an equal start. Not only does everyone run the same track, but they also start from the same line. This cannot, of course, be achieved easily or quickly as it implies massive education, training and opportunities for those previously kept out of the mainstream. However, adopting the goal would serve to maintain and strengthen this priority within future government programs. The challenge, therefore, reaches far beyond removing apartheid to include erasing its legacies of inequality.

**i) Reaching the high moral ground**

The historical past of South Africa has favoured some while depriving many. An assessment of "winners and losers" will reveal that although colour was an important criterion for discrimination, it is not the only source thereof. Black on Black, Black on White and White on White examples can be quoted. Small vs big, full time vs part time can also be quoted in farming. One issue that needs to be assessed is how to deal with

history. How much compromise, apologize, and conflict is required before common ground is reached on which a "new" South Africa can be built? The real discount rate will have to be discovered through this process of conflict, compromise and apologize. This discovery will form a basis for the "High Moral Ground".

**ii) Agricultural land**

Equal opportunities in farming implies equal access to acquire production factors. The removal of apartheid will require the scrapping of all the acts inhibiting access to farm land. However, erasing the legacies of inequality might require a support mechanism through public sector intervention where the distribution of rights is actively biased and the allocation of land through the market is supplemented through affirmative action and support towards interested Black farmers who had limited opportunities to enter agriculture.

**iii) Affirmative action**

The need and application of affirmative action in agriculture, whereby those who were deprived by historical occurrences of equal access to opportunities to "reach the start line", are a derivative of the interaction between economic, social and political rights. Affirmative action programmes should be directed at the redistribution of rights through the granting of entitlement to all necessary farming support services to emerging Black farmers. Affirmative action, however, should be designed to be of temporary nature and not permanent as this will jeopardise the ethics of a fair reward for effort.

**iv) Farm labour**

Extending the idea of equal opportunity to the political dynamics of the job market would specify the right to organise for collective bargaining. This was largely achieved with the Labour Law Amendment Act of 1981 and has been an important component of reform dynamics since then. The further exclusion of farm labour from these legislation is clearly untenable and is one strong indication that, and also an explanation why, reform is still lagging in this sector of the economy.

**v) Basic needs and wage levels**

Contemporary beliefs about distributive justice include an important modification to the ethic of rewards in proportion to productivity. It is now accepted that, for whatever reasons, there can be large numbers of people especially in rural areas who's maximum effort fails to meet their most basic needs of food, shelter, clothing and a minimum of social experience. Intervention in economic processes to ensure basic needs is considered a just mandate for modern nations and a just expectation on the part of their constituencies. Agricultural policy should therefore relate to rural policy where farm production is promoted as a component of an integrated rural development approach. Rural community support programmes should complement farmer support programmes in policy and funding programmes. Efforts to assist farm labourers to improve their wage levels through improved productivity by granting access to political and social rights needs to be considered. In the absence of such measures pressure to fix wages at a "minimum livable" level might be considered as just by the greater society.

**3. An analysis of South(ern) African Agriculture**

An analysis of the present position in agriculture is given through the following statements: (See Van Zyl and Van Rooyen, 1990; Van Rooyen, 1989; Vink and Kassier, 1990; Groenewald and Kassier, 1990; Marcus, 1990; Stofile, 1990 for more detailed analyses and information).

**3.1 Agriculture in South Africa has a key role to play in economic growth and equitable welfare generation**

An analysis of the performance of the agricultural sector indicates that the role and contribution of the agricultural sector are essentially derived from income and employment effects throughout the economy. In this respect it is important to realise that these linkages and multipliers give the agricultural sector a far wider impact on the economy than through direct effects alone, eg. the contribution of the agricultural sector to the GDP is 5,3 per cent with 13,6 per cent economically active people directly employed in agriculture. The total impact of the agricultural sector on the economy was however measured as 12,8 per cent of GDP and 24,4 per cent employed (1988 figures). (Van Zyl and Vink, 1988).

If it is further realised that presently 800 000 smallholders operate in homelands, it is obvious that efforts to increase productivity amongst these farmers will contribute substantially to poverty abatement and equitable welfare generation.

**3.2 Agricultural efficiency and sustainability is presently in question and more flexible land acquisition systems may result**

Land utilization in rural areas is closely related to agricultural production activities. The agricultural resource base of South Africa is not particularly well endowed, particularly when soil quality and climate are considered (Cowling, 1990). Despite these features commercial farming succeeded in producing food and fiber at reasonable costs while also employing the single largest number of workers per sector (Brand, 1990; Van Zyl and Van Rooyen, 1990).

However, at present agricultural production in both commercial and developing farming in South Africa is faced with the challenge of restructuring (Van Rooyen and Van Zyl, 1990; Vink and Kassier, 1990; Stofile, 1990). This can in particular be argued from an economic efficiency and economic sustainability viewpoint:

- (i) Indications are that commercial farming in general is producing in an increasingly less economically efficient manner, especially when intermediate inputs are considered (Van Rooyen and Van Zyl, 1990; Groenewald and Kassier, 1990; Liebenberg and Groenewald, 1990).
- (ii) The acquisition of technology and financial support required to sustain the present commercial farming systems and modes of production are increasingly coming under pressure from financial constraints, inflation, decreasing international terms of trade and moves towards more market related agricultural policies, including the reduction of government subsidies (Van Zyl and Vink, 1989; Liebenberg and Groenewald, 1990).
- (iii) Past pricing policies, which distorted market signals to farmers, have also distorted farming practices in contravention of economical, ecological and environmental parameters, eg. grain production on marginal soils. The resulting short sighted farming practices, especially of some commodities for example maize in the Western Transvaal, have lead to the degradation of soil and grazing resources, increasing incidences of acid rain, water pollution and salinization of soils. These are in short posing a threat to sustained agricultural production. The over exploitation of certain natural resources in the "homelands" must also be noted in this regard (Weiner, Vink and McKenzie, 1990; Van Zyl, Fenyas and Vink, 1987).

- (iv) An extremely skew distribution of income and production on White commercial farms reflects in a Gini coefficient of 0,67 and 0,85 to all farmers (Black and White). A small number of farmers are therefore capturing most of the benefits of farm policy while a majority of commercial farmers are presently experiencing financial problems resulting in an increased number of bankruptcies (Van Zyl, Fenyas and Vink, 1987; Hagedorn, Vink and Van Zyl, 1990).

The design of farming systems, technologies and practices therefore would have to take note of the social, political and legal environment more stringently in future. Indications are that these factors, combined with economic considerations such as comparative advantages will, for example, move crop production to the higher potential eastern areas of South Africa and at the same time possibly lead to a reduction in average farm size, while livestock production will take the place of crop production practices *inter alia* in areas such as the Western Transvaal and parts of the Swartland (De Jager, 1990; Nowers, 1990).

All the above forces will impact on agricultural land use. It is expected that:

- (i) production will shift to more economically optimal localities according to the principle of comparative advantages;
- (ii) land utilisation practices will become more flexible. One reason is that farming might not provide a sufficient source of income and part-time activities would have to be considered to supplement household incomes. An interesting observation in this regard is that more than 40 percent of rural household incomes in certain commercial farming areas are already generated through non-farming activities. Factors related to increased capital cost to large farm areas, limited opportunities to achieve economies of scale in farming, the complication to manage large labour forces and inflexibility of large-scale farming are other reasons. These factors may contribute towards an extensification process to save on input costs on the one hand, but smaller farm units on the other hand.

These will release farm land and an array of alternative land acquisitions and operation systems can be expected to occur, ie. share cropping, various rental and tenancy arrangements, supplementing private land ownership.

**3.3 The granting of Equal Rights will have to be supplemented by Affirmative Action programmes to facilitate the process of agricultural restructuring**

The political reform process will in all likelihood introduce the granting of Equal Rights to all South African citizens. The provision of equal rights alone will however not lead to an equitable, sustainable and efficient agricultural system.

The attainment of an equal rights position through *inter alia* the scrapping of the 1913 and 1936 Land Acts will enable some Black persons to acquire agricultural land for farming purposes. This, however, will not ensure that all people interested in farming will have a fair chance to acquire farm land and practice economically viable farming. The present skew distribution of wealth will especially inhibit many potential Black farmers, specifically small holders, to obtain land through outright purchases. Apart from land purchase the right of access to the other farmer support services will also not necessarily mean that such access will be possible for smallholder Black farmers. An Entitlement approach whereby such farmers will have the ability to command their rights of access, will be

necessary. Such a programme of entitlements can be accommodated within an Affirmative Action approach where soft loans to acquire land and farming capital stock, and special measures towards human capital development, i.e. extension, management support services, training, etc. will in all likelihood be required. Important, however, will be to ensure that this form of support does not create a permanent need for subsidisation e.g. such as presently experienced by a large number of commercial White farmers.

Affirmative action programmes will have to attempt to identify those farmers who can emerge towards the position of eventually competing in the agricultural input and commodity markets on a par with other farmers elsewhere in South Africa. Affirmative action programmes should, however, strive to minimise distortion effects through incorrect price signals (See Vink and Kassier, 1990 for a review of distortions brought about in commercial agriculture through government policies).

An entitlement/affirmative action programme may also imply that land should be made available for the settlement of Black smallholder farmers for example in the vicinity of urban concentrations. This is important to enable these producers access to lucrative urban markets for high value products, in the areas of for example vegetables, cut flowers, milk production, etc. Such programmes would have to pay special attention to marketing arrangements to ensure that farmers are directed towards the production of commodities which can be sold and commodities which are in demand. The selected farmer settlement model will also be crucial and many lessons from experience in this respect are available in South and southern Africa (Van Rooyen, et al, 1987).

### 3.4 Farm size will not necessarily correspond to the size of land ownership

From the above assessments it can be stated that land ownership will become less important as a basis for farming in South Africa. Various tenure arrangements will enable partnerships in farming to combine interest and knowledge with land ownership and capital availability. "Farm size" will therefore not necessarily be confined to the size of land ownership.

Arrangements to include farm labourers on commercial farms into the farm business through partnership and equity arrangements should also be considered. This will enable farm labourers to acquire a more equitable portion of the wealth created by farm production while retaining productive labourers on the farm, a necessity for efficient and sustainable farming.

### 3.5 Privatisation or nationalisation of farm land: a fallacy

The debate on nationalisation versus privatisation of farm land can easily revert into an ideologically based discussion where social and political arguments dominate. Observations throughout the world indicate that farming is best left in the hands of "farmers", i.e. the private sector (Csaki, 1990). Farming is often viewed in a romantic light or best suited for less intelligent or poorly qualified people. In reality, however, it requires skill and determination combined with innovativeness and entrepreneurship to be successful apart from access, etc.

Individuality is considered as a prerequisite. The public sector on the other hand should direct its efforts to ensure sound economic and social policy directions; to regulate practices to ensure ecological sound farming approaches, legally acceptable practices and fair competition, etc; and to stimulate appropriate research, extension and training activities.

Farmers in the commercial world, also in developing agriculture, are used to land acquirement using market mechanisms such as buying and selling, renting and leasing, share cropping,

etc. As farm land acquisition is motivated by returns from farming it also stands to reason that these activities should be left in the hands of the farmers, with minimum interference from the bureaucrats and commissions, except of course to ensure equal protection in law for all parties to land transactions. This may even take the form of special legislation to protect tenant rights, or to ensure productive and sustainable use of agricultural land.

In South Africa government, however, might be required for the facilitation of support to make acquisition and transfer of land as efficient as possible and also to ensure access to funding and support services to those farmers who were not historically in a position to acquire land and to farm on a commercial basis.

"Affirmative" actions towards land acquisition in a "new" South Africa, should therefore concentrate on: a) the removal of all impediments to land acquisition, i.e. the scrapping of the Land Acts and related legislation; and measures to ensure equal protection in law for tenant farmers; b) the provision of access to the necessary support services to emerging Black farmers. Apart from the above measures, c) the availability of state land (Trust Land) to the amount of more than two million hectares provides an ideal opportunity for pro-active programmes to enable Black farmers to acquire land and set up farms; d) the provision of land around urban areas to enable "green belting" where especially Black smallholders could provide produce to the lucrative urban market, i.e. vegetables, fruit, cut flowers, milk, etc. should also be considered. This is important as Blacks had virtually no access to these urban markets, being confined to far away homeland areas (Van Rooyen and Van Zyl, 1990).

The productive use of land could further be promoted through selected land tax measures. The introduction of a tax system, where taxable amounts could be offset against farm profits, should further be explored (See e.g. Nieuwoudt, 1987; Groenewald, 1989).

In general, the demand for land should be accommodated through market action while government should play an important facilitating role strengthening markets to enable Black farmers, through affirmative action programmes, to obtain legal entry into farming and eventually compete on par with all other farmers within South Africa.

Withdrawals of present subsidies to White farmers will for example: a) ensure land to become available in "White" areas on a willing seller basis; b) Money saved on these subsidies can be used to enable Black entrepreneurs to obtain access and entitlement to these farms.

### 3.6 Small farms can make as effective a contribution to economic growth as large farms

The expected movement to smaller farms in the commercial sector, occupied by both White and Black families, could promote an equitable, efficient and cost effective farming system due to the greater involvement of family labour, more owner/labour intensive production methods, lower capital requirements to enter farming and more flexible farming systems. Large-scale commercial farmers generally outperform Black smallholders where production levels are compared for obvious reasons, i.e. larger farm sizes, more protection and comprehensive support systems. However, a comparison of input/output ratios and cost efficiency indicates that smallholders in South(ern) Africa, where appropriately granted access to farming support services are approximating, and under certain circumstances even outperforming white large-scale commercial agriculture on a per unit basis. (For examples see Van Rooyen and Van Zyl, 1990; Stofile, 1990).

**3.7 Agricultural restructuring towards fair access to farming opportunities will not necessarily jeopardise the food security position**

Indexes show that the agricultural sector is at present providing far in excess of the country's food needs. This, however, does not imply that the "food equation" is balanced or that food demand is sufficiently met through methods of food acquirement and entitlement (Van Rooyen and Van Zyl, 1990). People thus remain hungry and suffer the effects of malnutrition. The magnitude of Self Sufficiency in especially crops and horticultural production is of such a degree that the short term impact of restructuring will not jeopardise Food Security. It must be noted that Food Security is not synonymous to Food Self Sufficiency.

It is therefore argued that agricultural production can in fact drop somewhat over the short run to accommodate immediate measures of restructuring while a proper approach to future agricultural development, stimulating entrepreneurial farmers to gain fair access to farming opportunities and support services, would enable a sustainable and economically viable level of food security and agricultural production. Linkages with other sectors must however be taken into account when considering lower production levels.

**3.8 The unraveling of legislation to ensure equal access to land and farming opportunities will be a tedious and laborious process - immediate actions however can be taken to restructure agriculture (Budlender and Latsky, 1990; Davis and Corder, 1990)**

The scrapping of the 1913 and 1936 Land Acts will have to be complemented by a review of numerous other laws to ensure equal access to agricultural production factors and opportunities to all who are interested in farming. Such a process will take time, especially as historical and present legislation established a certain set of rights to land that can not be summarily ignored.

As entitlement to land should be viewed as only one important, albeit complementary, process for agricultural restructuring. Various other measures should also be considered. There would therefore be need for some action towards reform during the interim phase.

**4. Reaching the "Moral high ground", "Security of expectations" and some interim options**

Within the current period of pre-negotiations and positioning it will be important to reach the "moral high ground" and establish at least some "framework of comfort" to allow agricultural investment, planning and production to continue. The fragility of the agricultural resource base require careful utilization and uncertainty of "future expectations" can have dramatic deteriorating effects. Such effects were for example apparent during uncertainty periods with the transfer of land between White and Black under the land consolidation programme. The following items are proposed. Amongst these are the restructuring of present policies and services:

- i) The present proliferation of 14 Government Departments of Agriculture can be addressed through the movement to one SA Department of Agriculture absorbing present "homeland" departments, possibly on a regional administrative basis to ensure proper attention to the diversity of farming.
- ii) Agricultural finance, research, technology transfer and extension services should immediately be restructured to serve the farmers of the "new" South Africa. The linking of the present financial arrange-

ments, agricultural research stations and Faculties of Agriculture into a coordinated support system could receive immediate attention.

- iii) Affirmative action programmes to assist Black farmers to utilise existing opportunities. Institutions such as the Development Bank of Southern Africa and the Independent Development Trust and existing development agencies can play and have played a substantial role in funding farmer support programmes.
- (iv) Farm labour reform is urgently required. Provision to include farm labourers in the Labour Relations Act. Opportunities for labourers to take up shares in farm enterprises, bonus schemes, etc. should also be considered.
- v) A declaration of Intent and Principles to guide future agricultural development policies and strategies might be important. For the immediate and much more necessary, however, will be that the "problem statement" facing the "new" South Africa must, without avail, be placed on the agenda for discussion within and between the various interest groups. Especially farming groups, including the Agricultural Unions, should be activated to discuss and debate historical and future perspectives. The provision of information, although not necessarily "value free", can assist to balance the present ideologically based discussions on agricultural matters. Solutions should be based on the answers to "Right Questions" not "Right Answers" to "Wrong Questions".

Considerations and immediate actions, such as suggested above, could greatly assist in establishing "Security of Expectations", where future concepts can be envisioned as greater than the costs of restructuring. The mentioned actions could assist in preparing the South African farming community to participate in "negotiations" on the future agricultural structure. It seems important and very necessary that values and a common new "VISION" of the future agricultural and rural structures be shared by especially those who will be affected by the "new" agriculture in South Africa.

In this regard it is important to realize that agriculture plays a key role in the process of rural development. The optimization of forward and backward linkages to the broader political economy is vital for a sound integrated rural development strategy, with the emphasis on linkages with local rural enterprises. Such an approach requires an economic strategy to mobilize rural resources optimally. As agriculture forms the natural economic base in many rural areas, strategies which emphasize the leading sector role of agriculture should be followed, although agricultural development should not be seen in isolation from integrated rural development (Mellor, 1986; Van Rooyen, 1990; Van Zyl and Vink, 1988).

Agricultural production also does not take place in a void (Mosher, 1971). It is firmly linked to the rest of the South African economy through both forward and backward linkages. As such agriculture is an important market for industrial products and in turn supplies raw materials to the processing industries. Structural changes in agricultural production will thus also have marked implications on the other sectors of the South African economy. These linkages accentuate agriculture's key role in a sustainable agricultural based employment, growth and development strategy. This also points to the possible advantages of restructuring South African agriculture. An important factor to take into account is that measures which impact negatively on the agricultural production structure will also have negative linkages dampening economic growth and progress.

Recognizing agriculture's linkages to the broader economy thus is important when looking at interim options, also with respect to security expectations.

## 5. Conclusions

The establishment of "policy options" to restructure South Africa's agricultural sector should be treated with caution. Policy options depend on basic values translated into strategic approaches and choices to achieve set objectives and goals. The paper also provided information on the present situation in South(ern) Africa's agricultural sector in an attempt to contribute to the debate on these issues in order to "discover" some basic values and strategic perspectives. Although the information is not always value free, it is important as a degree of consensus must be reached between the major participants in the process. From such a consensus some goals and objectives can be established followed by a selection of strategies and models and an appropriate institution structure to implement these. It must also be stressed that this is a iterative process where there is interaction between consensus, goals and institutions in the broadest sense. It is also important to institute some immediate actions in order to assist in establishing some "Security of Expectations" which will enable farming to take place on a sound and constructive base en route to the "new" South Africa.

## Note

1. This section is based on a draft document by J Eckert, L Sibisi, C McKenzie, N Vink, T Fenyés, A Schmid, P Söderbaum, J van Rooyen and J van Zyl on "Towards an Ethic for a New South Africa" - the "Swakop Group", chaired by J Eckert.

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