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AGRARIAN POLICY

[California, Chile - California program]

FOURTH SECTION

AGRARIAN POLICY

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Introduction

The fundamental objective of the present Program of Agricultural Development is to obtain better use of natural and financial resources, as they correspond to the General Economic Program, over a period of ten years, for the purpose of:

- a) Substantially increasing agricultural production in order to increase the income of farm owners or operators and laborers which in turn will result in an ample and permanent market for industrial production;
- b) Decrease importation and increase exportation of agricultural and livestock products and;
- c) Increase and improve the diet of the population.

The work to be developed in order to achieve the objectives can be outlined in the following three fundamental concepts:

- i) Completion of a series of projects to facilitate a substantial increase in the agricultural production; emphasizing light construction, irrigation, roads and general transportation, as well as industries dependent upon agriculture.
- ii) Improving the technological level of national agriculture; and
- iii) Adopting and maintaining an economic policy in general, and agricultural in particular, to create an economic and social climate appropriate to realize the objectives mentioned in points a) and b).

The first two matters have been treated in various chapters of this Program of General Economic Development. In accordance with the third point, the Fourth Section of the Agricultural Program groups a series of ideas and measures pertaining to an "Agrarian Policy".

We do not pretend, in this study to propitiate novelties in material that have been discussed and proposed by innumerable economic and social schools in the world and in this country, or that have been suggested for many years in published recommendations. This contribution is modest and only tries to enunciate in an orderly manner such points of view of agricultural knowledge which might help in the performance of the objectives mentioned at the beginning of this Introduction.

The positive effects of many of the policies that will be mentioned herein, will not be achieved in a short period. That is to say, we wish to establish clearly that to give the agricultural section a rhythm of development similar to the other economies, is not something that can be accomplished in a short time.

The degree of inter-relation that exists in the various policies connected with agriculture as a dynamic procedure is complex and diverse. The negative efforts that any such proposed measures could present may distort or completely annul the positive action of the rest. For this reason, and apart from the essential continuity of the action, the various policies must be given a sufficient degree of flexibility to encompass the possible alternatives derived from those unforeseen changes which normally occur in the development of a country.

It is of fundamental importance, also, that in formulating the various policies, the following risks should be avoided:

1. That the measures adopted tend to economically favor a few, to the detriment of the majority;

2. That for the practical application of the established measures there must be excessive regulation and procedures that would mean a high cost in operation and control. In general, the action must be limited to indirect methods which require fewer employees and which are less susceptible to pressure of various kinds.

3. That, as a consequence of the grouping of measures that are put into practice, there is not developed in individuals or enterprises an excessive confidence in the aid or intervention of the government, annulling private initiative as a factor of major initiative in the productive and commercial process; and

4. That there is no tendency to an excessive limitation of public functions beyond the necessities of the producers and the market in general for the fulfillment of established objectives.

Also mentioned are the different essential policies that must be included in a coordinated, rational agricultural policy, including a description of the existing situation with the possible modifications that would be necessary to introduce in each of them.

II. Integration Policy of Directive Organizations

^{a/} Studies have revealed the existence of approximately twenty major associations directly or indirectly connected with production and distribution of farm products, which associations have varying influence on these activities.

Lack of coordination, duplication of effort and lack of uniform policy have been detrimental factors in the activities of these organizations.

This situation will have to be corrected before any agricultural policy or program can be carried out. The number of such organizations should be greatly reduced, and the powers and functions of each one clearly established.

Parallel to the indicated action, and for the purpose of maximum utilization of limited, available resources, and at the same time making government policy more effective, it is of fundamental importance to establish adequate coordination between the participating organizations through a Superior Directive Council composed of the chief executives of the various organizations. This Council must be able to count on technical assistance which will not only consider the projection of the methods to be adopted in the area of agriculture, but will consider the effect on all other sectors of the national economy individually and jointly.

III. Selection and Training the Technical Personnel

The success or failure of any program of economic development depends to a high degree on the availability of personnel with sufficient capacity to execute it. This fundamental aspect has been practically ignored or only mentioned superficially in the reports and plans that have been made to date.

^{a/} "State Agricultural Organization & Expenses"-DTICA, Ministry of Agriculture, 1956

The consequences of such evident lack of practical vision in approaching the problems have been revealed in the ineffectiveness of the action developed by the different public organizations. This has been due, to a great extent, to the inability of the Government to retain in its institutions the qualified technicians who could adequately contribute to the solution of the problems and the execution of the programs. Many of these technicians have been employed by private entities, international organizations, or foreign countries who, understanding the importance of their participation, know the value of their services.

The aforesaid reveals an even more serious situation in agriculture if it is realized that the number of capable and specialized technicians leaving the universities of the country annually is inadequate to satisfy the present needs. The lack of interest existing among university students to follow agricultural careers is due principally to the uncertainty of an economically secure future.

Considering the lack of technical skill in farm production and the need to achieve substantial increases in the shortest possible time, it is essential to solve the problem of technical personnel in order to have available competent professionals in sufficient number to carry out this development program.

In this connection, the Government should cooperate with the universities to encourage training of experts in those activities and specialties necessary to insure the success of programs destined to accelerate national economic development, placing special emphasis on agricultural production and commercialization, which have the greatest deficiencies.

IV. Agricultural Price Policy

A. General

In recent decades a fundamental characteristic of farm price policy of the Government has been marked intervention and control for the purpose of curbing increases in prices of foodstuffs, caused mainly by insufficient national production, vis-a-vis growing demand, inadequate commercialization and runaway inflation. a/

Pressure brought to bear by the mass of consumers, whose requirements have been increasing, higher income, and migration of rural population to urban and industrial centers, have caused demand for greater variety and quality of food, and have contributed to the aforementioned trend.

In view of this situation, it was deemed that the problem could be solved by means of price control or limitation on the producer, wholesaler and retailer, in certain foodstuffs, which in total represented approximately 50% of the value of national farm production in the decade 1946 - 1955. b/

The results of this policy were soon felt, since it created uncertainty which discouraged production, especially in recent years, aggravated the situation relative to food deficit and the lack of capital for agriculture to promote use of technology, increase efficiency and production, and raise the standard of living of the labor and farm population.

The fact that free farm prices have not been allowed to operate for a number of years has curtailed farmers' incentives to produce foodstuffs which are lacking and improve productive efficiency. Therefore, it has not been possible to stabilize or lower the prices of farm products by means of gradual decrease in cost of production.

a/ During the last five years there have been short periods of free prices which do not change what has been stated.

b/ Chilean Agriculture 1951-1955, Department of Economy - Year 1956

The policy of maintaining ceilings on retail prices of many food products had similar consequences, since this practically eliminated competition and the necessity of increasing operational efficiency as a means toward decreasing costs of marketing.

Disappearance of competition in the food business caused lack of interest in improving the quality and presentation of products, and also caused arbitrary and harmful practices in commerce, especially the retail trade, the consequences of which have fallen directly on the consumer.

In order to maintain the level and stability of farm prices one of the most important factors in the normal development of agricultural activity, which is characterized by its relative rigidity, it is necessary to establish a well defined policy which takes into consideration the final results already indicated for an agricultural policy. Set forth below is the orientation which would be advisable for government intervention in farm prices, at the producer level, as well as at the consumer level, inasmuch as both must be strictly linked together and in harmony with the goals of production and consumption indicated in the program.

B. Price Policy for Producers

According to experience gained in fixing price limits or maximums on various farm products in recent decades, it can be affirmed that it is necessary to change direction in this regard and orient governmental policy to rational practices, in keeping with supply, intermediaries and consumers of farm products in our country.

Table No. 1 shows the average five-year percentage fluctuations in wholesale and retail farm prices, and the general price index during the last twenty years. In regard to the general level of prices in the country, it is deduced that farm prices have, in the average, increased during the five-year periods 1939-43, 1944-48, and 1949-53, undergoing a decrease of nearly 15% during the period 1954-58. ^{a/} In the same table there is also analyzed the situation relative to prices on wheat and cattle, which are two basic products for our agriculture, as well as for the diet. The figures show that wheat prices increased during the first two five-year periods, decreasing 13% and 9% respectively in the last two periods. In the case of cattle, prices increased relatively during 1944-48 and 1949-53, decreasing in the first five-year period and in the last (1954-58) when they fell an average of 16.5% in regard to the general price level. It is fitting that the two products analyzed have been directly or indirectly subject to all kinds of governmental controls in prices as well as in processing and marketing, but nevertheless they have undergone continual increases and decreases in actual price, providing no guarantee whatever to the farm owner or national interests.

Although it is true that the loss of purchasing powers affects the producer, the fixing of price levels customarily higher than those in the rest of the economy tends to create inefficient production and, therefore, maintains the agricultural sector in a stationary condition.

^{a/} The short periods of free prices during the last five years have undoubtedly caused greater instability in the decisions of farmers.

TABLE N° 1

ANNUAL AVERAGE PERCENTAGE OF PRICE INCREASES , 1939 - 1958

YEARS	<u>Wholesale Farm Production Prices</u>		<u>Retail Food Prices</u>				
	Gen. Index level of prices	General Index	Wheat <u>a/</u>	Cattle <u>b/</u>	General Index	Bread <u>c/</u>	Meat <u>d/</u>
1939-1943	17.9	19.3	19.3	17.0	20.1	24.5	21.2
1944-1948	15.0	18.5	18.7	18.0	16.2	14.9	14.8
1949-1953	21.6	23.8	18.8	27.3	21.3	17.2	26.5
1954-1958	52.8	45.1	48.0	44.1	54.1	50.2	54.9

GENERAL INDEX LEVEL OF PRICES = 100

1939-43	100.0	107.8	107.8	95.0	112.3	136.9	118.4
1944-48	100.0	123.3	124.7	120.0	108.0	99.3	98.7
1949-53	100.0	110.2	87.0	126.4	98.6	79.6	122.7
1954-58	100.0	85.4	90.9	83.5	102.5	94.7	104.0

GENERAL INDEX OF WHOLESALE FARM PRODUCT PRICES = 100

1939-43	92.7	100.0	100.0	88.0	104.1	126.9	109.8
1944-48	81.1	100.0	101.0	97.3	87.6	80.5	80.8
1949-53	90.8	100.0	79.0	114.7	98.5	72.3	111.3
1954-58	117.1	100.0	106.0	97.8	120.0	111.3	121.7

Source: Magazine of Chilean Statistics

- a/ Wheat harvest period base Valdivia
b/ Heifers 500 kilos Osorno base
c/ Retail bread price Santiago
d/ Rump meat, retail price, Santiago

Obstacles to free trade, outside of discouraging production and/or productive inefficiency, have not given the results originally expected, that is, to avoid increases in retail prices of foodstuffs because in the last five years, they have increased to a degree which has no relation to the fall of prices at the producer level (Table 1)

In practice, this failure has been due mainly to the fact that governmental intervention has ignored those fundamental causes which directly or indirectly cause fluctuation of farm prices or which increase costs of marketing, and such intervention has been concentrated solely on the monetary expression of those causes.

The marketing of farm products is distinguished from other economic goods by the following characteristics:

a) Seasonal Nature of the Majority of Products.- This causes a concentration of supply in relatively short periods which, in general, creates a substantial depression of price levels during harvesttime as compared to the rest of the year. In situations of deficit production, as is the present case of the country, the difference in price throughout the year is higher than normal for expenses of storage, waste, irrigation or interest charges. Approximately 75% of physical national farm production is seasonal, and the value is 60% of the total production.

b) Perishability of the Products.- There are a great number of farm products which can be stored only a short time. Owing to this condition, the market for these products (approximately 60 products with a value of 51% of the national production) fluctuates greatly in prices, due principally to the lack of correlation between the quantities offered and the demand. This phenomenon acquires a serious character in the specific case of some vegetables and some fruits, due to the lack of storage as a means of regulating the supply.

Special mention should be made of the fact that with the increased income of the middle class, the demand for perishable products will increase and this will tend to aggravate the situation even more during the next years.

c) The oligopolistic character of the purchasing market for agricultural products.- The oligopolistic structure (purchasing power in the hands of a few in the market for agricultural and livestock products) is caused by the fact that, in a supply provided by more than 100 thousand producers, the purchasing is done by a relatively few merchants and processors that normally operate in fragmented markets where there is no adequate system of information on prices and products, or where the means of travel do not allow producers to go to the markets. This circumstance has been brought about by the geography of the country, the lack of spirit of cooperation among the producers, and by lack of capital, credit, warrants and adequate installations for storage, so that the products have not always been presented for sale as soon as they are harvested.

d) Wide variation of the quality in the product.- Due to the diversity of climate, variety and technique of production, there is, in every agricultural product, a broad range in quality. For this diversity in quality, the consuming public generally pays different prices, which, due to the nearly complete lack of official standards of classification for agricultural products, do not have any significant bearing on the prices of the products. By the mere act of hastily classifying the various products for the farmer, or even not classifying them, the intermediary merchant obtains substantial margins of profit, which, to a large degree, should accrue to the producers.

On the other hand, in many cases the establishing of single maximum prices for certain agricultural products, without taking into account their

qualitative differences, has caused an evident lack of interest on the part of the farmers in producing better quality products, since there is no possibility of compensation for their efforts by better prices. These deplorable circumstances have tended to retard improvement in the quality of the products subjected to single official prices, and to discourage a spirit of improvement and competition at the production level.

In order that price policies may bring about the aforementioned, the following is necessary:

1. In accordance to the stipulated goals of production mentioned in the corresponding chapters, and only for such products that have great importance as sources of revenue for the Agricultural Section, extraordinary possibilities of exportation and indispensable necessities from the point of nutrition, the Government should apply a policy of price support, or minimums that guarantee the producer an income compatible with his productive effort. This policy of price minimums or support which has given spectacular results in the United States and which at present is being applied with success in various Latin American countries, should be controlled only by technical organizations and should have the necessary flexibility to modify the level of support when it is deemed convenient in the general orientation of production and marketing of the products. It is evident that a policy of minimum prices must not be carried to the extreme of guaranteeing excessive profits. It must not be forgotten that the minimum prices set at levels adequate to provide parity incomes will enable the farmer to sell his products in the open market at higher prices, according to quality.

On establishing a policy of this kind, to attain the desired effect, it is essential that the producer should know prior to the times of sowing the approximate prices that such products will have.

Finally, special emphasis must be made that, in a policy of prices, no matter how rational and well orientated it may be, it is not possible in itself to produce fundamental changes in the utilization of the productive resources, and such a policy must necessarily be closely related to other basic policies such as credits, taxes, ownership of the land and agricultural salaries, principally.

2. The policy of support and stability of agricultural prices to guarantee the producer a minimum income and avoid the exaggerated fluctuation or speculation of prices through the year, rests in the buying power of the Government, which should have adequate storage facilities and equipment and be in a position to acquire opportunely a sufficient percentage of the crops to make impossible private transactions at lower prices than those fixed.

In connection with the foregoing, it must be mentioned that the necessary volume of purchasing is directly proportional to the imperfection of the market, which is to say that from the beginning this must be high, and will diminish gradually to the degree that the supply at the producer level is organized and competition encouraged among wholesalers and retailers.

3. Together with creating a governmental purchasing power, indirect stabilization and support of agricultural prices should be aided by the convenient installation of local depots (dry storage) and cold storage warehouses in relation to the various areas of production and centers of consumption. This would permit the farmers, and preferably cooperatives, to store their products which are not included in the system of the price support, so that the credits on stored products (warrants) can be used on a broad scale, and thus avoid flooding the market at harvest time with the subsequent depreciation of prices.

4. To avoid the extreme fluctuation of prices in such products which cannot be preserved in due form (certain vegetables and fruit), a system of production planning and orientation must be organized before planting, to avoid overproduction, and/or have sufficient transportation equipment for an adequate distribution to other markets. These measures are feasible due to the geoclimatic conditions of the country which make it possible to rotate times of sowing and reaping from north to south.

To accomplish with success the adequate planification of production of certain products, the organization of the producers in associations and cooperatives will be essential, as well as orientation of the granting of credits only in accordance with the purposes sought. If necessary, special taxation or commercial measures could be adopted.

5. Finally, and as a specific measure to prevent wholesale prices of agricultural products from reaching exaggerated levels in certain cases, either by seasonal decline in production or by speculative practices of the producers and intermediaries, it is necessary that the Government be in a position to carry reserve stocks of basic food products and market them at the proper time, and, at the same time, allow free importation of certain products when the domestic prices tend to increase excessively.

C. Policy of Prices for the Consumer

In a very similar manner to what happened in relation to the governmental policy on prices for the producer, in recent years the policy of single or maximum retail prices has not given the expected results in preventing the rise in the cost of food products at the consumer level, and has greatly increased cost or prices of intermediaries, to the detriment of the producer and the consumer, whom such measures were intended to protect.

This fact is shown by analyzing the figures on average price increases in recent years, when controls previously established, created a crisis (Table I). It will be noted that the general price index of food-stuffs sold at retail increased on the average 20% more than the wholesale prices during 1954-58. Products such as bread and meat, strongly controlled in prices, increased more in price than their basic raw materials, that is to say, wheat and live cattle.

The principal technical-economic reasons why the price control of retail products has not been given the desired results in the country, are the following:

1. In a situation of scarcity of food products, the control of prices at the retail level immediately creates the black market where the products are sold at a higher price. If this does not occur, it makes the lack of production more effective by increasing in this manner the actual demand in the market. That is to say, the relatively low prices of other products incites a stronger demand for the controlled products.

2. When there are no rules for typical classification of food products, maximum price limits offset to a large degree the benefits derived from price differential for quality and presentation, and there is a general decline in the quality of products purchased by the consumer

In the few instances in which price limits were fixed with differentiation as to quality, as is the case of vegetables and beef, the consequences were even more detrimental to the consumer, since the result was mass distortion in classification to distinguish between the qualities corresponding to the prices affixed.

3. In certain cases, the methods of formulae used by government agencies to fix retail prices of products, had serious defects, and appeared to benefit intermediaries more than the public. Owing to their importance examples are mentioned of the methods used to fix prices of flour, bread and meat, for which respective production costs were calculated on the basis of inefficient industries, and a profit for processing was assigned in direct proportion to their costs of production. From the point of view of efficiency and general interest of the consumers of the country it is easy to realize the economic implications of such a criteria on setting prices. In other cases (vegetable and live cattle) retail prices were fixed on the basis of the average of free prices obtained in the auctions. This method of setting prices caused evident disturbances, since all intermediaries who purchased at higher prices in the auctions, usually products of better quality, had to sell in many cases at loss or small profit. In order to avoid this, they simply retorted to subterfuges of all kinds in order to obtain adequate margins of profit. Those merchants who purchased products of inferior quality at prices lower than the average, obtained excessive margins of profit, reaching an actual situation in which the profit of the intermediary varied inversely to the quality of the product. Furthermore, the intermediaries exhibited no spirit of competition in their purchases from the producer, in many cases giving the impression that they were in common agreement, since they could not run the risk of raising the average prices, but certainly of lowering them, whereby the resulting averages tended to decrease, with logical discouragement of the producer.

4. Finally, the lack of natural price differentiation which should exist according to quality of products, was evidently an social-economic injustice, because it equalized price levels of food products, vis-a-vis a demand characterized by great inequality of income. In a normal market these price differentials are paid, which benefits and encourages production.

In order to overcome these disadvantages, the Government must encourage to the highest degree the healthy and free competition in the intermediate sector, commencing by gradually abolishing price setting at the consumer level, as measures are put into effect to decrease costs of production and commercialization. Price differentials based on quality could be effective.

V - POLICY OF COMMERCIALIZATION

A - Domestic Trade

Commercial activities in distribution of farm products in the country have not evolved in the last twenty years at a rate and to a level in keeping with the necessities or interests of the consumer population and of advantage to producers. This has been manifested in a continual widening of marketing margins, without giving greater services, whereby the proportion received by the producer has become less and less in relation to prices that the consumer pays for his food products. On examining what has happened in the relationships of prices of wheatbread and cattle-meat at the retail level in the last twenty years (divided into five-year periods, Table 2), it can be verified that in both cases there has been an extraordinary broadening of the marketing margin in the last five years.

The general tendency of increase in profits or participation of the intermediate sector in the composition of prices of food products has been accelerated, owing mainly to the following causes: 1- Demographic distribution has undergone fundamental changes during the present century. From a country with essentially rural population, Chile is at present one of the few urbanized Latin American nations, where the population is concentrated in metropolitan areas and industrial centers. This phenomena, which has accelerated notably during the last two decades because of industrialization, has direct incidence in the notable quantitative increase in the flow of farm and livestock products through the commercial system, which increase has been far superior to the average growth of the cities, owing to the fact that cities have grown at a faster rate. Inasmuch as systems of marketing have not evolved adequately at the same time during this period, there has been an extraordinary burden on existing commercial installations and functions. Since it was not possible to absorb the burden, there has been an excessive increase in the number of intermediaries with consequent rise in the market cost.

2- The rise in income per capita of urban-industrial population has resulted in qualitative changes in demand for food products, whereby there is a tendency to replace cheap carbohydrates food products, which are relatively easy to produce and sell, with products relatively more expensive and complex to produce and sell. This tendency has been demonstrated in the urban centers by substantial increases in per capita consumption of vegetables, fruit, milk, and sea food.

From the point of view of the market, these changes in the diet have shown that the flow of voluminous highly perishable products which are more complex and costly to transport, handle, and maintain in good conditions, has increased in trade channels.

3- The lack of technical commercial orientation in Governmental and Municipal intervention, has greatly contributed to many cases to placing the intermediary wholesale sector in a commanding position opposed to the producer as well as one which retards evolution in the retail trade, causing in both instances operational inefficiency and lack of incentive for competition. A notable case of the aforesaid is the relation to the policy on control of trade in livestock and meat in the country ^{a/} showing that it has contributed to intermediate local monopolies, the existence of numerous very small inefficient slaughter houses, increase in clandestine slaughtering, excessive number of butchers, and the elimination of free competition among the butcher shops.

^{a/} Analysis on the Policy of Prices and Control Measures of the Livestock Products. Rev. Agriculture and Livestock Nos. 11-12 p. 33-40 M. Agriculture 1957.

TABLE N° 2

Five-Year Variations in Price Margins

Pesos of 1958

YEARS	PRICES 100 kilos		INDEX	
	WHEAT a/	BREAD b/	WHEAT	BREAD
1939-43	6.374	13.691	100	215
1944-48	6.596	14.855	100	225
1949-53	6.485	13.747	100	212
1954-58	5.377	12.416	100	231

	LIVE WEIGHT	RETAIL	LIVE	RETAIL
	BOVINES c/	MEAT d/	WEIGHT	MEAT
1939-43	15.964	71.840	100	444
1944-48	16.906	67.347	100	398
1949-53	20.786	76.383	100	367
1954-58	18.347	88.355	100	482

SOURCE: CHILEAN STATISTICS

a/ Period of harvest based on Valdivia

b/ Bread price in Santiago

c/ Cattle of 500 kilos Osorno

d/ Meat sold at retail level in Santiago

In the case of marketing food products at the retail level, the municipal policy of liberality in the granting of commercial licenses to peddlers, and the arbitrary limitations on the installation of groceries and butchershops, etc., in addition to splitting up licenses according to type of product, has brought, as a consequence, an increase in the less efficient types of merchants. They have also limited the horizontal integration of establishments and of new items of food products (fruits, vegetables, groceries, meat, milk, products, etc.) for which the most efficient exponents of this are the chains of super-markets of the self-service type, which can also be vertically integrated with an evident decrease in the cost of commercialization.

Another type of governmental intervention in the commercialization of the agricultural products has been the subsidizing of freight for some products, amounting in some cases, such as wheat and flour, to nearly 90% of the value of the freight. As a consequence we have an imbalance of economic relations that influence the location of the various crops and exploitation throughout the country, and effect the improper location of the milling industry and storage facilities in special Warrants warehouses, which have been located near the consuming centers instead of production areas.

5- From the point of view of costs, the commercial function of buying and selling, as well as the lack of an official uniform system of classification for agricultural products, causes the buyers of such products, especially vegetables and fruits, to have to make a complete and detailed inspection of each lot or shipment, with consequent loss of time, which in turn increases costs. In addition, the lack of a qualified inspection service and with existing regulations that sanction adulterations, there has been brought about an increase in the margin of profit, due to the fact that the intermediaries have to cover the risks of quality alterations. The lack of official classification and inspection also obligates the transportation services to assume the responsibility for the loss of products as a result of possible deficiencies in handling operations, excessive transportation delays, etc. With the construction of a network of cold storage slaughter houses for the transportation of chilled meat, it will become imperative, in a short time, to have such an official inspection service. The same problem is encountered with relation to the variation of the quality of various other products stored in warehouses, silos and cold storage plants.

Another factor in the increase of the margins of commercialization is the lack of an official system of information on market conditions and prices which has obliged many intermediaries to avoid the risk of paying high purchase prices, or to knowingly pay low prices to the farmer, who generally is much less informed on conditions existing in the market than the dealers.

6- The low price paid to the farmers has been principally due to the lack of adequate physical means for the efficient development of marketing conditions and procedures which expedite the flow of products, particularly involving perishable products. This lack of physical means especially concerns the modern wholesale markets, cold-storage plants and transportation and handling equipment. A classical example of the aforesaid is the problem of supplying the southern cities with vegetables and fruits, where they arrive at exorbitant prices, while in the northern zones the farmer does not even obtain prices that cover his cost of production and transportation to market.

7- Another factor that has influenced the extraordinary rise in prices of commercialization is that products such as wheat and other cereals, legumes, sunflower seed, etc., which in other countries are stored, transported, loaded and unloaded, etc., in bulk with great economy, in Chile are

marketed in sacks. On the other hand, bulky agricultural products subject to rapid deterioration and loss of quality, such as the vegetables, fruits to a large extent are marketed in bulk at wholesale, when they should be marketed in adequate containers to avoid damage by knocks, pressure or rubbing.

8- The lack of incentive for competition in the intermediary (wholesale) sector, and the inflationary process, have caused an increase in the number of operators, with a general lack of technical administrative ability, both in the wholesale as well as retail fields, who, on the average, operate on a very small volume, in comparison with those of other countries. In the case of the meat, an extreme has been reached where the average daily sale is 90 kilos per butcher shop a/. This phenomena is the opposite of what was to be expected in a country with a certain degree of industrial development and a rise in average income. From these circumstances, it is deduced that the merchant, to maintain his profit, has operated exclusively to increase the difference between his costs of purchase and the prices of sale, and not on a basis of increasing the volume of sale.

The aforesaid data indicate the evident necessity to transform structurally and institutionally the systems of commercialization of farm products, through governmental action, planned and carried out with technical economical criterium, the goal of which must be aimed at a maximum efficiency in each commercial operation, and to stimulate competition at the same time. It is essential to emphasize that we cannot expect satisfactory results from specific plans to increase production of agricultural products, unless the system of distribution is corrected. In accordance with the above, governmental action in the field of marketing of the agricultural products should encompass the following points:

- 1) Eliminate all measures or legal dispositions that tend to curb or limit free trade.
- 2) Enforce anti-monopolistic legislation, through formation of a technical inspection organization which is able to determine the existence collusion, or monopolistic practices in the market.
- 3) Centralize in a technical organization the power of constructing and controlling the operation of fairs, markets, and slaughter houses, for the purpose avoiding private or communal monopolies at centers of food supply of regional, or national, importance. Unnecessary duplication of construction and installation could be avoided with consequent saving of economic resources.
- 4) Organization of a service for official inspection for uniform classification of agricultural products, which, operating in the wholesale markets, stations, and ports, would guarantee the quality and homogeneity of the products, according to official rules for uniform classification which should be established with the participation of the specialized technicians.

It must be stressed that a service of this nature must not be limited only to the inspection and certification of the quality of agricultural products, but also to the classification of such other products whose qualities are susceptible to adulteration, such as fertilizers, animal food, seeds and pesticides, etc.

- 5) The creation of an adequate market information service, for the producer and as well as consumer which, operating through specialized reporters, and based on rules of uniform classification, would supply

a/ Agriculture and Livestock N°11 and 12 pg. 19, Ministry of Agriculture

daily detailed information on the variations and volume of transactions in agricultural products in the principal wholesale and retail markets.

6) In a special chapter of the General Plan, the problem of transportation, roads, communications, and ports is analyzed in detail. As transportation is essential in any rational program of orderly marketing, in addition to respective policy of investment, it must be emphasized that a considerable part of the cost of transportation is closely linked to the operational efficiency of the transportation system and to the work of loading and unloading products, which must be performed rapidly without causing deterioration in the quality of the same. Furthermore, we must undertake a revision of the policy followed to date on subsidizing freight as means of localizing exploitation in accordance with the comparative advantages of production and markets, avoid exaggerated increase in agricultural prices of the distant zones, and consequent artificial rise in the value of land that would cause an unjustified increase in the cost of production. In this respect it must be pointed out that from any point of view, it would be more convenient to replace the subsidies on the freight of the products, with subsidies on the freight of the inputs, special fertilizers, concentrates, pesticides, etc. Apart from being less burdensome for the national treasury, it would encourage wider use of these products, this causing greater and cheaper production.

7) In marketing agricultural products, the wholesale markets, or open air "farmer's markets", should have a responsibility in the very important function of buying and selling and in determining the price that the farmer receives for his products. For this purpose, and in view of the scarcity of the modern and functional wholesale markets in the country, the provision of adequate governmental resources must be planned for the construction of a network of wholesale markets, in the zones of production as well as near consumer centers, with the modern installation and equipment necessary to assure the handling, storage, chilling, sale, loading, and unloading, rapid transportation and low cost of the products. The lack of modern wholesale markets is especially noticeable in the marketing of vegetables, fruits, poultry, products of the sea, and wool.

8) As a means of eliminating intermediaries and assuring the farmer a more adequate and stable price for his products, the State must encourage the formation of Associations or Cooperatives of Commercialization between the producers. This can be attained through instructive campaigns and allowing credit and custom facilities for the construction of installations such as dairies, slaughterhouses, cold storage plants, flour mills, canning factories, warehouses, cereal elevators and dryers, means of transportation, etc., and finally by preferential granting of the credit Warrants on the stored products.

Parallel to the producers' cooperatives, the formation of consumers cooperatives must be encouraged, as a means of lowering the cost of food products to the consumer and avoiding the speculative practices of retail merchants.

9) For the purpose of rapid modernization of food processing and commercialization, which greatly affect the cost of living of the population and the level of income of the agricultural sector, preferential customs treatment must be given for importation of refrigeration and transportation equipment, food processing machinery for human as well as animal consumption, equipment for handling products, etc., especially for dairy plants, cold storage slaughterhouses for beef and poultry, mills, bakeries, wholesale markets, supermarkets, manufacture of containers for farm products, etc.

Regarding the intermediary retail trade, governmental policy should be to reduce cost of retail distribution by encouraging creation of chains of self-service supermarkets by the following means:

- i) Grant general trade licenses at a lower fee than the total amount of ordinary licenses;
- ii) Freedom to locate near any other retail food business;
- iii) Special credit concessions, etc.;
- iv) Permission to operate more hours per day; and
- v) Allow present grocery stores, butcher shops, fruit vendors, bakeries, dairies, etc., which have adequate installations, to sell any other food product at retail.

B - Foreign Trade

The possibilities of competing and placing farm products in the world market and increasing exports depends to a large degree on presentation and packaging, correct classification and quality of contingent products exported over the years. These essential characteristics, which condition and give the measure of prestige and confidence necessary to create a growing demand in the world market of farm products, can only be attained by extraordinary organization and technology in export products and by strict governmental control over quality. In addition, to the necessary inspection services, there must be uniform rules for classification of export products, much more strict than those applied in the domestic market, and orientated to the tastes and preferences of import markets.

Following are the serious deficiencies which have contributed to retarding and even decreasing the quantity of exports of Chilean farm products in recent decades: 1) lack of governmental policy to encourage large scale exports of farm products; 2) existence of governmental controls to reduce such exports, expecting thereby to curb price increases in the domestic market, which has not been achieved. In this regard, there must be pointed out the lack of economic and social vision of these measures, which have considered exports as mere surplus of domestic consumption, since they have: 1) contributed toward maintenance of farm income at low level; 2) limited the growing of products for which the country has best economic advantages to produce; 3) prevented exportable surpluses of products cultivated for export, from being used for domestic consumption at low prices, owing to quality; 4) force the agricultural sector to link its possibilities of greater income to the level of domestic farm prices, which should be linked to international price levels. This would tend, in many cases, to stabilize domestic prices, to the direct benefit of the consumer.

3- Irresponsibility of certain Chilean exporters regarding quality and uniformity of national farm products sold abroad, with consequent loss of these markets and prestige of the country.

4- The existence of an intermediary export trade which absorbs an excessive proportion of the prices obtained in foreign markets, without greater benefit to the producer.

5- Lack of timely and adequate information on conditions and character of foreign buying markets, price levels, quality and presentation of competitive products, etc. In this respect it is fitting to point out the bad policy followed concerning some Chilean export products, especially wines and certain fruits, whose quality and characteristics are exceptional, which nevertheless, are sent abroad with non-Chilean identity, with the result that in foreign markets they bring prices lower than genuine products of similar quality.

6- Lack of an official inspection service for export products, which would not only ascertain the sanitary condition thereof, but would control the correct classification, as well as the containers and merchandising with respect to the market of destination.

7- Impossibility of having a large volume of high quality, exportable contingents of certain products for which interest has been aroused abroad, whereby important markets have been lost because the demand could not be opportunely met.

8- Strong competition faced by certain national products (such as fruits, for example) in the world market, from countries in the southern hemisphere which operate with great efficiency and at a high technical level in their export markets, with the support of their respective governments, and which have caused Chile to lose many possibilities for an export market.

9- Inadequate advertising, or the complete lack of it, in foreign markets to develop demand for national farm products is another important factor which has negatively influenced possibilities of increasing exports of farm products.

In view of the foregoing, there is set forth below the orientation which governmental and private policy ought to give to the great possibilities for export which are open to the country owing to the quality and characteristics of certain farm products, to the opening of new markets as result of the integration of a common market for Latin American production, in accordance with the law of comparative advantages and the necessity for diversifying sources of foreign exchange, which to date has been devised mostly from the mining industry:

1) Elimination of all kinds of tax and administrative obstacles which prevent or delay exportable products or which raise the price thereof;

2) Establishment of a highly technical governmental service to control the quality, classification, packaging, and presentation of export farm products;

3) By means of special credits, development of agricultural cooperatives and associations for domestic and export commercialization, in order that only the producers may receive the direct benefits of export trade.

4) Cancellation of export permits and application of heavy fines on those persons who attempt to adulterate quality or who in any way damage the prestige of Chilean products abroad;

5) Creation of a governmental service of information and study of foreign markets similar to that of nitrate and copper, for the purpose of orientating Chilean exporters, achieving increase in foreign demand for national products and obtaining highest possible prices. This service of Information and Development of Agricultural Foreign Trade must necessarily have a corps of specialists in farm marketing assigned to the Chilean consulates in the main purchasing market.

6) Development, by means of medium and long term credit and tax facilities, of livestock exploitation and production destined for export.

7) As an essential supplementary measure to reduce cost of commercialization of export products, operations of classification, packaging, loading and unloading of products must be mechanized to the maximum. In addition, immediate access to ports and railway stations must be assured by means of an adequate system of paved roads from the farm areas

to the outside market.

8) As a measure to decrease prices of food products within the country, agreements with producers of export products can be made for the sale, at reduced prices, of those products whose quality is not satisfactory for exportation. These products can be purchased entirely by the Government and distributed through consumer cooperatives or regulating retail stores.

VI - POLICY ON SUPPLY OF SOIL SUPPLEMENT

In recent years the greater part of governmental policy on price and trade control has been concentrated directly on goods produced by the agricultural sector, and little has been done with regard to the prices and trade in impersonal contributions or factors in cost of production, which affect direct expenses of farm production to a high degree. Impersonal contributions which have greatest influence owing to the amount of expense within the sector, as well as to their greater use in production, can be defined as fertilizers, chemicals, seeds, concentrates, foodstuffs for animals, vaccination, pesticides and farm machinery and its spare parts.

Table No. 3 shows the average annual increase by five-year periods in the price of "soil supplements" of greatest importance to agriculture, and their relation to the average increases in farm wages, wholesale price of farm products and the general price index level. It is observed that farm machinery prices have increased considerably on the average during the five-year period 1954-58, to a degree not in keeping with the increase in farm prices or the general price index level in the country. There can also be observed a considerable comparative increase in the price of fertilizers and soil additives during the last five-year period.

However, it must be considered that part of this extraordinary increase in "impersonal contributions" has been off-set at the expense of farm laborers' wages, the average increase of which in the period 1954-58 was much less than that of soil additives, farm prices and the general price level.

In view of the geographical nature of our country, a high percentage of farm cattle land is in a disvantegous location, because of distance and lack of transportation from the sources of supply of the above mentioned soil additives for which reason there is observed a gradual rise in price thereof from north to south, which is out of any proportion to the decrease in price of farm products in this respect.

An attempt to remedy the foregoing to a certain degree has been made by adjusting railway freight rates of some products. This has contributed to an artificial rise in their prices in farm regions of the south, and in the demand of leasing land. Consequently, there has been a tendency toward artificial increase in the value of land and cost of production, and at the same time the consumer of that zone has been unjustly affected by the rise in cost of food products. Instead of attempting to remedy this situation, which is relatively disadvantageous to the producer in the relationship of "price input - product price", by means of subsidizing the product itself, the freight rates on the above mentioned supplements should have been given maximum allowance. This has a tremendously favorable effect than subsidizing the prices of products in improvement of efficiency, the increase in unit yield and subsequent decrease in production costs. The action taken to date has had exactly the opposite effect, eg. rise in said production costs and inefficiency in production.

A sound policy on supply of impersonal contributions must have the purpose of lowering production costs by means of decreasing expenses of "inputs" and increasing unit yield by greater utilization of "inputs". Furthermore, this is the only economical way to meet the problem of higher income for the farmer without prejudicing other sectors of the population by an excessive price increase.

Taking the foregoing into account, there are set forth below the fundamental measures which should be applied as the basis of a policy in this respect:

TABLE N° 3

ANNUAL AVERAGE PERCENTAGE INCREASES IN PRINCIPAL INPUTS

<u>Inputs</u>	<u>FIVE YEAR PERIODS</u>		
	1944/48	1949/53	1954/58
1) Physical inputs:			
Fertilizers <u>a/</u> and chemicals	21.9	25,5	57,1
Machinery <u>b/</u>	13.2	21.6	75.2
Seed <u>c/</u>	19,8	21,4	45,8
2) Laborers' salaries <u>d/</u>	13.5	22.3	34.8
<hr/>			
Index of:			
Farm Production Prices:	18.5	23.8	45.1
General Level of Prices:	15.0	21.6	52.8

Sources: Inputs utilized in the wheat crop. Department of Agriculture Economics of the Ministry of Agriculture.
National Statistics and Census Service
Agriculture and Livestock Magazine N° 6, Ministry of Agriculture, 1956

a/ Sodium nitrate, Melón phosphate, Red Manure, Calcium Carbonate

b/ Thresher 28" and cylinder 12", tractor, 45 HP.

c/ Wheat

d/ Includes money payment and bonuses.

1. Total abolition of all consular fees, customs duties, taxes or any other measure which increases the prices of fertilizers, pesticides, seeds, vaccines, antibiotics, food concentrates for animals, machinery, installations and tools for use on farms of any kind, including installation and equipment for processing and commercialization of industries utilized by agricultural cooperatives. In addition, these measures would force encouragement in efficiency and decrease costs of national production of "inputs".

2. Heavy subsidies for railway and maritime freight rates on these "inputs", for which it is advisable to utilize part of the funds allocated for present subsidies of freight on these products.

3. Increase to a maximum those re-adjustable, medium and long term credits for purchase of soil "inputs".

4. Creation of an inspection service for certifying seeds, fertilizers, soil additives, pesticides, concentrates and foodstuff, which would punish those who adulterate the quality of these products. This service should be a part of the aforementioned service for inspection of uniform classification of farm products.

5. Encourage competition in trade in farm machinery and spare parts, fertilizers, pesticides and other "inputs", granting special loans to agricultural cooperatives and associations from direct importation through the State Bank (Banco del Estado de Chile).

VII - CREDIT POLICY

During recent decades agricultural credit in Chile has acquired very special features which have caused inadequate and disadvantageous use of the credit, for the following reasons:

1. Gradual disappearance of agricultural credit at medium term (2 to 7 years) and long term (8 to 25 years), only relatively short term credit remaining available to farmers. During the five year period 1953-57, a/ of the total loans granted by the Agricultural Department of the State Bank, 67% were for credits up to one year and the rest for 2 to 3 years. Farm loans granted by other banking institutions have also followed this same trend.

Reduction of period for repayment has caused a relative shortage of loans for capitalization which play a most important role in development of productivity, and which are loans for replacement or improvement, to increase the number of livestock, to mechanize agricultural enterprises, and for "real estate loans", destined for improvements of construction and crop planting.

2. The inflation resulting from monetary devaluation has been a factor of the first magnitude in reducing periods for repayment of agricultural loans. This is the high price that producers have had to pay because there is no adequate mechanism which allows banking institutions to recover the real purchasing power of the loans.

3. It has been demonstrated that the loans or credits granted, especially those repaid in 2 and 3 years, have been good business to those who received them on the basis of price differences caused by inflation, and not effective use of the loans as a production factor in their agricultural enterprises.

The disadvantage of this situation is even greater when it is taken into account that during the last decade the agricultural sector absorbed the greater proportion of the total credit of the country, approximately 1/3, without considering the credit granted to the intermediate sector to purchase farm products which loans indirectly benefit agriculture. b/ At the same time, it has been estimated that within the agricultural sector, only 20% of all agricultural operators have benefited from loans by the State Bank, and, in general, in view of the strictly banking business policy which has prevailed in credit institutions, these operators have been those who have greatest economic resources inside and outside the agricultural sector.

The foregoing explains the small effect of the relatively high volume of loans granted to the agricultural sector, at negative rates of interest for the purpose of achieving greater efficiency and overall increase in production.

Another feature of credit in the country, which involves great importance as a regulator of the supply of farm products to the market, is the so-call "warrants" credit on products stored in warehouses. This credit has the purpose to permit the farmer to obtain higher prices and better his situation, vis-a-vis the purchasing power of the intermediary and the food processor, has not had the expected results because the latter would not profit from it.

a/ & b/ Bank Credit for Agriculture - Economic Panorama Magazine, No. 199 year 1959.

This has been encouraged by concentration of warrants, warehousing capacity near consumer centers and not in production areas, and due to lack of orientation and adequate control of this credit.

The general situation of the country's agricultural credit indicates the need for a substantial modification of the present policy, orientating it toward its true function, i.e. making this basic tool effective as a medium through which the State can intervene directly or indirectly in order to achieve the production goals within the time limits established. In this sense, a rational policy for agricultural credit should contemplate the following basic points:

1. Introduction, on a large scale, of intermediate and long term credit based on types of loans at low interest rates, readjustable in accordance with fluctuations of the general wholesale price index of agricultural products or in relation to the price variations affecting the products which are native to the various areas where credit is granted.

2. Distribution of total State credit funds destined for agriculture in proportion to the relative importance of the various agricultural zones and, within these zones, in relation to the different agricultural and livestock production in close accord with production goals and priorities established in the general program of agricultural development.

3. Absolute control over the use of loans which should be granted in accordance with rational farming plans, giving preference to those destined to agricultural operations directed or programmed by the agricultural specialists.

4. Introduction of supervised credit methods in those areas where small and medium sized farms predominate, and which have the possibility for increasing production through adequate capitalization and techniques

5. Assign a considerable amount of credit for production and marketing cooperatives or associations and especially for the organization of credit cooperatives handling "warrant" credit which will allow them to construct installations and purchase equipment for storing farm products and provide adequate operating capital. These loans should be adjustable and for a convenient long term.

VIII - POLICY ON AGRICULTURE TAXES

The policy on agriculture taxes followed to date has not been successful in bringing about an adequate use of the country's agricultural resources, nor has it been formulated in coordination with other factors of farm production such as credit policies, supply of inputs, commercialization, prices and wages, in order to assure achievement of certain goals clearly chosen in the development of agriculture and livestock, and in distribution of income created by these activities.

To a great extent the foregoing is due to the fact that to date no integrated agricultural policy has been definitely followed, and only isolated measures have been adopted on the use of the diverse elements of an agricultural policy, such as taxes, credits, public works, etc. Therefore prior to the promulgation of Law 11575 ^{a/}, taxes on farming were imposed solely for the purpose of obtaining governmental revenue, without considering the variable agricultural profits, which in a good year could be very high and in the following year could be nothing, according to weather conditions.

Owing to lack of accounting by farmers, the results of farming have been taxed on the basis of the land tax, fixed on the assessed value of the properties on the assumption that there is a relation between said value and productivity, and the global complementary tax, which applies to an established, presumed income and which has for similar reasons been fixed in proportion to the evaluation of the properties.

The fixing of similar or equal tax rates for good and bad agricultural years, together with the conviction that farm profits were low, the increased value of land located near cities with the demand for urbanization and the demand therefore as protection against inflation, caused taxation on agriculture in Chile to be a lesser percentage of the value of the property and of the income it produced, than the percentage in countries with higher agricultural development like the United States and countries of Western Europe.

Agricultural taxation ignored the sub utilization of the land, and in a certain way punished the progressive farmer who evaluated his property by using good farm techniques.

This and other factors adverse to agricultural development were revealed by the 1955 census, which indicated that approximately 35% of arable land is uncultivated. This percentage includes almost 30% of the irrigated land located in the agricultural zones with the highest value in the country,

According to these figures, for every 1.7 hectares of arable land under cultivation or lying fallow, there is one hectare of farm land which is idle or covered with natural grass of low fattening capacity per unit of its surface.

In order to promote greater utilization of the land and technification of agricultural enterprises, the National Agricultural Society studied and promulgated Law 11575 which established an initial evaluation of farm lands (not taking improvements into consideration), with annual readjustments according to variation in profits of farming and livestock raising.

^{a/} The contents of this law are contained hereinafter.

This law is based on the hypothesis that, on taxing in the same way, lands of equal quality which are farmed at varying levels, a heavy charge would be imposed on those operators who utilize only a part of their property, employ out-dated methods, or make few investments. This would force or prompt them to make greater and more rational utilization of their resources or sell their lands.

Apparently, Law 11575 has not given the results expected of it, due perhaps to defects in the initial evaluation of the lands and also to the solution made of the problems created, in the annual determination of profits, by delay and deficiencies in statistics on farm activities. Of course, there may be a considerable number of evaluations which have no relation to the productive capacity of the lands. Furthermore, despite the purpose of this law at mid-year, definite information on all inputs is not available, or on all production and prices of the same year. According to this law, these items must be considered in calculating the profit of all farming and livestock raising. This has forced the Commission created by this law, which must determine the profits, to make disputable evaluations which have varied periodically according to changes in membership of the Commission.

Persons who criticize the system of agricultural taxation under Law 11575 can be classified into two groups. One group consists of those who believe it possible to make an annual examination of each farm in the country, or the majority of the farms, and the other group consists of those who think that it is very difficult or impossible to make such an inspection annually, and they are inclined toward a general system of fixing taxes which would improve or perfect the procedures adopted by this Law.

The first group is partial to obligatory farm accounting by all properties whose evaluation exceeds a certain level, and recommends that an annual examination be made of this accounting, prices, determination of possibilities of yield and establishment of presumed income, which work would have to be carried out by groups of experts or joint committees of experts and owners.

The second group favors evaluation of lands, every ten years, and the first evaluation, which should be made as soon as possible, would correct the errors in evaluation on which Law 11575 is based.

During the periods between one evaluation and the next, annual adjustments of evaluations would be made according to variations in the profit it may be possible to obtain. These possible profits would be fixed by regions on the basis of a reduced number of "inputs" and products, according to constant rules, would be publicly known.

The ten-year evaluation would make it possible to take into account the changes in the value of the lands and possibilities of use thereof by means of technical advances, of public works and of the economic evaluation of the country. In addition, it would serve to correct possible distortions in evaluations adjusted annually in a general way for each region on the basis of the partial data which has been made available.

Common to the two groups is the idea that taxation, by means of the evaluation of the presumed income of agricultural properties, should be in relation to the possibilities of yield of the land and not with the results of use thereof. The taxation should be very heavy on uncultivated land and on land with insufficient productivity, especially if it is located in zones of high yield with accessibility to consumer centers. In this way, the owners of these properties would be forced to work them, or improve their farming methods or sell them.

It is deemed that it is a job for a committee of experts to choose the most simple and advantageous method of taxation, although the combined recommendations of the above mentioned second group appears to meet these conditions.

In both systems of taxation, the annual fixing evaluation of presumed income would determine the global complementary tax which the former would have to pay.

In any event, an agricultural taxation policy should be applied jointly with a policy of credits, price, commercialization, purchasing power for farm products, supply of inputs, public works and technical training and assistance which would invalidate any excuse for not attaining the level of utilization of the lands and of productivity on which the evaluation may be based.

IX - POLICY ON FARM WAGES AND OTHER MEASURES TO BENEFIT WORKERS

The level of wages for farm workers is one of the lowest in the laboring population of the country. Table 4 demonstrates that between 1940 and 1958 farm wages fluctuated between 31% and 25% of the average level of wages for the mining and manufacturing industry and general commerce.

From the same table there can be observed the difference between the average compensation for farm laborers and the average wages of workers in the mining and manufacturing industry and general commerce. It is noticed that this difference had a trend to increase between 1940 and 1954, although there was a tendency to decrease after the minimum farm labor wage was set.

The deteriorated situation of the farm laborers, who represent 32% of the total workers in the country, according to Table 5, has had a negative effect on the rest of the economy due to its almost complete lack of purchasing power. In addition, it appears to be impossible to increase substantially the production of manual labor of the farm worker while the wage level keeps them under conditions which create irresponsibility, lack of initiative in performing their work and physical inability to work intensively.

In view of the fact that the human element is essential to any program of agricultural development to achieve an important increase in efficient production, it is necessary to raise the level of life of the farmer laborer and incorporate it entirely in the market of goods and services of the national economic process. For this purpose, it would be advisable to do the following:

1- Study readjustment of the minimum wage and the family allowance for the farm laborer, by agricultural zones, in a way that is in a more satisfactory relationship to subsistence requirements and the level of industrial wages.

2- Establish a special credit policy for construction of adequate farm dwellings, the construction thereof being obligatory, and

3- Creation of cooperatives of workers and small producers for the purchase of consumer goods, by means of agricultural extension services and training, and granting of special credits for this purpose.

4- Raise the cultural level of farm laborers by means of educational campaigns, teaching new farm techniques and specialized courses such as agricultural mechanization.

X - POLICY ON IRRIGATION

In view of the very great importance of adequately irrigating farm lands in order to increase production, and also in view of the enormous expenditure which at times it is necessary for the State to make for this purpose, there must exist a well defined governmental policy for such purpose.

During the last fifty years, almost 24% of the total irrigated land in the country (325,000 hectares) has been made available by governmental action, by means of construction of dams or canals. The Ministry of Public Works is considering the inclusion of 350,000 hectares in the

TABLE N° 4

W A G E S O F L A B O R E R S

(Average Five-Year Periods, In Thousands)
of Pesos of the Year 1950)

<u>Five-Year Periods</u>	Average Annual Farm Wages a/	Average Annual Wages of Mining, Industry and Commerce
	<u>Workers</u>	<u>Workers</u>
1940/44	9,0	28,7
1945/49	8,8	30,2
1950/54	8,3	33,0
1955/58	8,5	31,2
<u>I N D E X</u>		
1940/44	100	319
1945/49	100	343
1950/54	100	398
1955/58	100	367
<u>I N D E X</u>		
1940/44	31	100
1945/49	29	100
1950/54	25	100
1955/58	27	100

SOURCE: CORFO - 1959

a/ Includes Wages and Perquisites

TABLE N° 5

NUMBER OF WORKERS AND OWNERS BY INDUSTRY

(Average Periods 1940/1944 - 45/49 - 50/54 - 55/58)

LABORERS (Thousands) 2/

<u>Five-Year Periods</u>	<u>Agricul- ture</u>	<u>Mining</u>	<u>Manu- facturing</u>	<u>Commerce</u>	<u>National Total</u> <u>1/</u>
1940-44	438,8	83,0	174,7	24,9	1.088,1
45-49	443,7	77,5	203,6	29,6	1.131,6
50-54	448,6	84,0	244,0	31,8	1.360,6
55-58	453,2	88,0	238,1	36,9	1.431,9

I N D E X

1940-44	40,3	7,6	16,1	2,3	100
45-49	39,2	6,8	18,0	2,6	100
50-54	33,0	6,2	17,9	2,3	100
55-58	31,7	6,1	16,6	2,6	100

EMPLOYERS (Thousands) 3/

1940-44	160,4	2,7	91,6	99,1	452,3
45-49	164,3	4,5	106,7	105,7	481,5
50-54	168,2	7,6	124,3	112,7	512,6
55-58	171,8	12,1	142,6	119,3	542,3

I N D E X

1940-44	35,5	0,6	20,3	21,9	100
45-49	34,1	0,9	22,2	22,0	100
50-54	32,8	1,5	24,2	22,0	100
55-58	31,7	2,2	26,3	22,0	100

1/ These figures include, in addition, workers and employers in construction, electricity, gas, and water, financial and insurance institutions, fishing, transportation and communication, etc.

2/ The figures for the years 1940-1949 were obtained by interpolation of data of the Census 1940-1952 for the years 1950-58, study of the "Departamento de Planificación".

3/ The figures were obtained between the Census 1940-1952 by interpolation of data of the Census 1940-1952.

irrigated area, and the improvement of 620,000 a/ more hectares, which will involve a great expenditure in the national budget.

Governmental policy followed to date in regard to irrigation of land has been characterized by the little importance given to the extraordinary increase in value of the land when it changes from dry land to irrigated land, which change has been a great contribution to the owners of the land. Furthermore, it is also an outstanding fact that, although the Government constructs such works as dams and the larger canals, much land does not receive the irrigation water destined to it due to the fact that the owners of the land do not build the minor irrigation ditches essential for the purpose of completing the water distribution.

For the reasons set forth, and bearing in mind the great potential capacity of the irrigated soil and the necessity of the country for adequate utilization of its limited financial resources and of its irrigated land, there are set forth below the fundamental aspects which must be included in a rational policy of this nature:

1- Enactment of legislation on irrigation projects in which is contemplated the repayment to the State of the increased value of the farm lands which have been irrigated by the Government. This increased value will have to be repaid in money or in land.

2- Make it obligatory for holders of farm lands to construct the secondary irrigation systems after the State has terminated works to irrigate their land, within reasonable periods and with granting of adequate credits.

3- Revision of water rights of all agricultural properties, with due consideration to actual necessities for water thereon, for the purpose of encouraging maximum use of the water.

4- Temporary loss of water rights on farm lands which are not cultivated as requested by existing canal associations.

XI - POLICY ON SOIL CONSERVATION

The country faces gradual loss of a considerable part of its potential farm production owing to disappearance of its primary basis of subsistence, the farm soil.

According to investigations based on soil surveys and aerosurveying, the Department of Conservation of Agricultural and Forestry Resources of the Ministry of Agriculture has determined that nearly 60% of the farm land in the country is, in one way or another, affected by erosion, i.e., loss of cultivatable land. Of this high percentage, nearly 3,000,000 hectares have reached such a degree of erosion that they can be considered as lost for farm cultivation (Table N° 9).

The fundamental reasons for the erosion which menaces the source of food products of the population, are the inadequate techniques in exploitation of forests or in the cultivation of sloping lands. The country lacks adequate legislation and control to put an end to irresponsible use of one of the most valuable of its national assets.

In addition to the irreparable loss of the arable top soil, the soil which is carried away by streams has caused banking of rivers, filling in of ports, and adversely affects commercial fishing in offshore waters.

C H A R T N°9

A R E A A F F E C T E D B Y E R O S I O N

DEGREE OF EROSION	MILLIONS OF HECTARES	PERCENTAGE OF FARM LAND
Light	5.4	17.4
Light or Dominant	9.4	30.5
Moderate	0.8	2.7
Moderate or Severe	3.3	10.5
Total in the Country	18.9	61.1

SOURCE: "Chilean Agriculture During 1951-1955". Ministry of Agriculture, 1957.

Furthermore, indiscriminate cutting of forests has caused, in addition to soil erosion, losses due to floods and changes in courses of rivers.

The foregoing data clearly indicates that property rights of agricultural holdings should not be carried to such an extreme that they endanger present and future national food supply, or cause serious disturbances to entire regions of the country. It is an unavoidable duty of the Government to take the legislative measures and controls necessary to compel or obligate rational use of soil susceptible to erosion, and at the same time give technical aid and credit facilities to recover soils which are slightly or moderately eroded, but which are on the way to being lost.

In view of the foregoing, the following measures are recommended as the basis for a governmental policy of soil conservation:

1- Enactment of a legal code, studied by the Department of Conservation of Agricultural and Forest Resources of the Ministry of Agriculture and the agricultural societies of the country, for the purpose of preventing improper use of farm soil.

2- Creation of a technical inspection service to effectively control use of soil in the various agricultural zones of the country, especially in those where soil erosion is most likely to occur.

3- Obligate farm owners to present a certificate of "good use of soil", granted by the aforementioned organization, in order to obtain credits of any kind in the Agricultural Department of the Bank of the State.

4- Grant special long term credits to recondition eroded soil.

XII - POLICY ON COLONIZATION AND LAND HOLDING

A notable structural characteristic of national agriculture is the distribution of land holding in relation to arable land, a situation which has not been changed for all practical purposes, in the last twenty years, judging from a comparison of the statistics of the agricultural "census" in the years 1936 and 1955.

In Table No. 8, the figures of both census, show that from 45.5% to 42.9% of the total exploitations or properties ^{a/} from 5 to 20 hectares composed only 5% of the arable farm area. In sharp contrast it can be noted that between 3.1% and 2.8% of the exploitations or properties composed approximately 41% of the arable land of the country. These figures do not include properties of less than five hectares, since they have not yet been tabulated for the 1955 census. Nevertheless, according to the 1936 census, there were approximately 88,000 of these small properties, which composed 48% of the total exploitations and which occupied only 1.7% of the total arable soil.

From the foregoing it is deduced that approximately half of the farms are too small to assure an adequate level of standard of living to their occupants, with exception of a few cases. This has been verified repeatedly by polls taken by the Rural Administration of the Department of Agriculture Economics of the Ministry of Agriculture. ^{b/}

Owing to the small proportion of arable land which they occupy, such exploitations do not greatly affect national farm production, and in general they represent a "sub utilization" of the human element which exploits them owing to lack of adequate land area for the person farming it.

In view of the situation set forth, we have the case of partial utilization of a high percentage of the most fertile and best located farm land of the country, due mainly to the excessive size of the properties, which have not been duly farmed for lack of capital, administrative ability of the operators, or simply lack of interest by the owners.

To demonstrate the extent of land distribution in the country, there is attached Table No. 9 which shows the zonal distribution of farm properties and arable area of irrigated soil. The same phenomena can be observed in each and every one of the agricultural zones mentioned. On one hand, there is an excessive degree of sub-division in a small proportion of land (6.8%), and on the other, there is a high percentage (42.1%) of irrigated land which composes an extremely small fraction of total properties (1.5%). This shows that the extreme cases of "sub utilization" of the human element due to excessive "diversion" of the property and of "sub utilization" of the land due to excessive size of the properties which occur to an almost identical degree of intensity throughout all agricultural zones of the country and in the most valuable type of irrigated arable soil.

^{a/} In the 1936 census, the properties were counted individually. In the 1955 census, farms called "economic units" were counted, i.e., all properties under one management were counted as one. However, this difference in determining the number of properties in both census does not change to any noticeable degree, either the distribution of property or the arable land by size of property.

^{b/} Research in Rural Administration, Nos. 1 to 10, Department of Agriculture Economics, Ministry of Agriculture, 1951-1958.

VARIATION IN DISTRIBUTION OF FARM LAND BETWEEN
THE CENSUS OF 1936 and 1955

FARM PROPERTIES WITH TOTAL AREA OF

	<u>5 to 19.9</u> <u>hect.</u>	<u>20 to 99.9</u> <u>hect.</u>	<u>100 to 999.9</u> <u>hect.</u>	<u>1000 or more</u> <u>hect.</u>	<u>TOTAL</u>
<u>1936 Census:</u>					
Properties (thous.)	41.4	32.3	14.5	2.8	91.9
Arable Hect. (1000)	274.5	838.8	2,109.9	2,248.7	5,471.9
Arable Hect. per Property a/	6.6	25.9	195.5	801.4	60.1
<u>1955 Census:</u>					
Properties (1000)	40.6	34.4	18.1	2.7	95.8
Arable hect. (1000)	270.2	827.1	2,089.8	2,233.2	5,420.3
Arable hect. per Property	6.6	24.0	115.5	827.1	56.6

PERCENTAGES (Country Total = 100%)

No. of properties

1936 Census	45.5	35.5	15.9	3.1	100.0
1955 Census	42.9	35.9	18.9	2.8	100.0

Area

1936 Census	5.0	15.3	38.6	41.1	100.0
1955 Census	5.0	15.3	38.5	41.2	100

Variation in arable
hect. per property
between Census %

0.0	- 7	- 41	+ 3	- 6
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Sources: 1935/36 Agriculture Census. Bureau of Statistics, Chile, "Chilean Agriculture in the Five Year Period 1951-55" Ministry of Agriculture. Some Results of the II Agriculture-Livestock Census obtained by Sampling. National Statistic and Census Service, 1956

a/ Corresponds to the quotient of arable hectares divided by the number of properties

TABLE No 9

DISTRIBUTION OF IRRIGATED ARABLE AREA, 1936 CENSUS

SIZE PROPERTY (Hect.)	TARAPACA- VALPARAISO ZONE (NORTH Z)		SANTIAGO- CONCEPCION ZONE (CENTRAL ZONE)		ARAUCO-CHILE ZONE (SOUTH Z)		TOTAL TARAPACA CHILE	
	Nº Prop.	Hects.	Nº Prop.	Hects.	Nº Prop.	Hects.	Nº Prop.	Hects.
(————— thousands —————)								
0-19.9	34.7	33.2	68.4	47.1	25.9	1.1	129.0	81.4
20-99.9	1.3	21.6	13.6	69.1	17.2	5.3	32.1	96.0
100-999.9	0.6	64.3	5.6	423.8	8.1	33.2	14.3	521.3
1000 and more	0.4	97.8	1.0	366.0	1.2	41.3	2.6	505.1
Total	37.0	216.9	88.6	906.0	52.4	80.9	178.0	1,203.8
INDEX								
0-19.9	93.7	15.3	77.2	5.2	49.4	1.4	72.5	6.8
20-99.9	3.5	10.0	15.3	7.6	32.8	6.6	18.0	8.0
100-999.9	1.6	29.6	6.4	46.8	15.5	41.0	8.0	43.3
1000 and more	1.1	45.1	1.1	40.4	2.3	51.0	1.5	41.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Agriculture Census - 1953/36 - Bureau of Statistics, Chile

Basic structural deficiencies of the system of land holding in Chile are logically linked to the productivity and volume of agricultural production.

The country undoubtedly requires a considerable increase in the domestic production of food products, effective incorporation of farm laborers into purchasing power for goods and services, utilization of foreign exchange for capital goods and essential raw materials and not for food products which the country can produce and, finally greater contribution of agriculture in diversifying and increasing the source of foreign exchange.

Therefore, it is necessary to consider the solution to these problems in a reasonable way, with a view to increasing productivity without interfering with normal work in agriculture. For this purpose, it is deemed necessary to apply a policy based on the following points:

1. Grant the Colonization Bank the legal, economic and technical resources essential to undertake, on an adequate scale, gradual work of re-grouping small properties and sub dividing large properties. The initiation of this work would be on government and semi-government agricultural land, especially that land located near large consumer centers and with high production potential.

2. Adopt measures necessary to avoid financial deficit of the Colonization Bank, by means of a system of automatic readjustments of loans granted to colonists, based on agricultural price index predominant in the areas of colonization.

3. Modernize legislation to avoid future formation of farms or agricultural units whose size may be inappropriate for economic use. For this purpose it may be necessary to draw up a legal code which would allow effective control, by technicians, of the sub division of farm land, especially in cases of division by inheritance laws or increase of urban areas by municipal annexation.

4. Encourage and make possible rational and integral exploitation of farm lands by means of a united application of policies on farm prices, construction of roads and irrigation systems, cold storage plants, slaughterhouses, dairies, supply of inputs, wages and taxation, in such a way as to stabilize the market and guarantee the income of the producer, promote adequate capitalization of technically operated agricultural enterprises, increase productivity of manual labor and pay this labor adequately and finally, by means of adequate taxation on land, penalize those who, despite the facilities to produce offered by this program, do not cooperate in the production development demands of the Government. This combination of policies will necessarily lead to re-distribution of farm land according to the degree of interest and productive efficiency of the owners and, therefore, rapid disappearance of idle or inadequately used land, with undoubted benefit to the country in general and farmers in particular.

5. Finally, a legal code should be drafted to fix maximum limits on the lease for farm lands, in accordance with its level of production, which would increase the proportion of the income which remains in the hands of the person who tills the land and runs the risks inherent to agricultural production. In addition, partial or total sub-leasing of property for speculative purposes should be prohibited.

XIII - POLICY ON AGRICULTURE RESEARCH AND EXTENSION

Research destined to provide better elements of production and more efficient technical systems to increase farm production, have had limited success in the country as for influence on agriculture, although the technical level of the research has been satisfactory.

Nevertheless, it should be mentioned that the magnitude, variety and continuity that research of productive procedures should necessarily have, in farming and livestock raising, have been inadequate. The changing ecological characteristics of the diverse national farm zones also require diverse zonal centers of research, since the varieties of plants, livestock, techniques applied, animal foods, fertilizers, pesticides, growth stimulators, etc. differ in characteristics and degree of effectiveness according to the different zones. Research for the purpose of supplying the economic bases necessary to orientate and plan rationally, and with least loss of resources, the research, training, technical aid and governmental policy in the field of farm production and commercialization must also be conducted at zonal or regional levels as well as, on the national level.

The greater part of the research on a national and regional scale in agriculture has been conducted mainly by the Ministry of Agriculture, whose availability of funds for this purpose have been entirely insufficient to meet the requirements of the country in this respect, and which is more serious, have been decreasing in recent years ^{a/}. In regard to agriculture research by the Universities, which is very great in other countries with the decided economic support of the governments, has been denied this support in Chile during recent decades. Therefore, its effective contribution to the solution of the numerous and variable technical and economic problems afflicting agriculture, has been negligible.

Agriculture research and experimentation, onerous in itself, is not an economic investment for the nation and does not lead to anything positive, unless accompanied by rapid and massive application of results obtained to the farms in the country, for which purpose the great majority of countries have created agricultural training and extension services in their ministries of agriculture.

The unanimous consensus among national and foreign farm experts is that, if there should be introduced in our farms the species of vegetables and animals, techniques and methods which research and experimentation have proved to be recommendable, a great part of existing food deficiencies would be overcome and production goals set by this program could be attained. Also, extraordinary savings would be achieved in the costs of production and commercialization, as well as providing for an adequate utilization of the limited resources of land, capital, manual labor and technical ability of owners, if the techniques and methods of rural administration and modern markets were extensively applied in the country.

The basic causes of the very scarce application of existing knowledge, in relation to how to achieve greater and cheaper production of foodstuffs, has been due mainly to the following factors:

1. Lack of an agricultural extension service with an adequate number of technicians and modern means of transportation in all farm zones of the country.

^{a/} Agriculture and Livestock Raising, No. 11-12, Page 27, Ministry of Agriculture, 1957.

2. Lack of economic-commercial spirit, in relation to farm problems, in national technicians and farmers.

3. Inadequate concept on the part of the Government of farm taxation, credits and prices in the creation of incentives to increase the volume of farm production and increase the efficiency of agriculture enterprises.

4. Limited work of the universities, owing to lack of resources, in relation to the important work they should perform on research, training of technicians, as well as, extension work in agricultural zones, in joint programs with the Ministry of Agriculture; and

5. Inadequate resources allocated for farm research and extension at the Government level.