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## REQUIREMENTS FOR CONTRIBUTION

Deserving articles in the field of agricultural economics, for publication in this journal, will be welcomed.

These articles should have a maximum length of 10 folio pages (including tables, graphs, etc.), typed in double spacing. All contributions should be submitted in triplicate (preferably in both languages) to the editors, c.o. Department of Agricultural Economics and Marketing, Pretoria, and should be received by the editors at least one month prior to publication date.

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# Agriculture: Trends and Prospects, 1963/64 and 1964/65 \*

by

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The increase in world economic activity, engendered by the Korea crisis, led to marked increases in the prices of many farm products, also in South Africa; and to an extent which caused the "terms-of-trade" to move sharply in favour of agriculture. It was also at the beginning of this period that farm machinery, fertilisers and other farming requisites became freely available again to our farmers. Their response by way of increased production was quite remarkable; so much so that, in conjunction with the favourable price relationships, the farming sector managed for several years to maintain its contribution to the net national income at the relatively high figure of around 15 per cent. This was accomplished even though the net national product was growing exceptionally rapidly.

## THE POST-KOREA PERIOD 1954 TO 1961

### Price trends and price stabilising measures

From 1954/55 onwards, however, the situation altered materially. According to the Food and Agriculture Organisation's report for 1964, average export unit values for agricultural commodities declined on average by more than 16 per cent between 1954 and 1961. (By more than 20 per cent from the peak of the boom in 1952). This decline, of course, was hardly reflected in the domestic agricultural price structure of any of the industrialised countries of the West. In these agriculture was more or less effectively sheltered from the unfavourable trend in world market prices.

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\*Extract from an address delivered at the Third Business Outlook Conference held in Johannesburg during October 1964.

- Editor.

Since one-third or more of our agricultural output in South Africa is exported, it will be readily evident that we could not insulate our agriculture to the same extent. Our problem was aggravated by the fact that the growth in demand within South Africa for a number of important agricultural commodities tended to lag behind the growth in production - in some instances even behind the growth in population. In the event we did remarkably well in managing to stabilise farm product prices to an extent where the general level declined only marginally between 1954 and 1961. Of course, as is natural at any time, the trends in the prices for individual commodities differed, depending on the circumstances peculiar to each. The prices of some commodities were under downward pressure practically all the time, e.g. maize, oilseeds, dairy, pig and poultry products. The prices of others had their ups and downs, e.g. wool, potatoes and various vegetables. But these were on average very nearly balanced by modest improvements in the prices of still other products, e.g. beef, mutton and also some fruits.

The operation of various marketing schemes and of less formal arrangements assisted materially in achieving this relative stability. The avoidance of undue distortion of our price structure, by not permitting the prices of various basic commodities to rise to excessive world market levels at the peak of the preceding boom, also proved to have been a wise policy.

The criticism made at the time that this farm-price policy was responsible for the rise in retail prices of food was not substantiated by the facts. Increases in the costs of storage and processing, and especially of distribution, were pri-

marily responsible for the marked rise of approximately 15 per cent in the retail prices of food which occurred during this period, 1954 to 1961.

#### Production, costs and income

However, to return to the farmer, the maintenance of prices at near their 1954/55 level did prove of material benefit. The physical volume of production continued to rise at an average rate of about 4 per cent per year - very nearly the same as during the preceding boom period, and not far short of the average rate of increase in the real national product during this period (1954 to 1961).

Production costs, unfortunately, also continued to rise. The prices of farm machinery and other farming requisites, for instance, rose by some 12 per cent over the seven-year period, 1954 to 1961. As a result, the total net income of agriculture rose by less than 2 per cent per year. When this is compared with the rise, over the same period, of about 2 per cent in the cost-of-living index, real income of the farming sector shows no advance.

Agriculture's contribution to the net national income thus declined from around 14.8 per cent during the early fifties to 10.4 per cent in 1961. Whilst a declining contribution from the farming sector can be regarded as a normal phenomenon in any reasonably progressive economy, this decline does appear unduly rapid - bearing in mind the relatively slow transfer of labour from agriculture to industry.

During this period farming techniques and agricultural practices were also in a process of change and adaptation, making ever greater demands not only on the knowledge and managerial ability of the farmer, but also on his financial resources. In this latter regard I need only mention, by way of example, the rapid increase in the quantities of fertilisers, fuel, packing material, insecticides, improved seeds, etc. which were used in the agricultural industry. When the total amount spent on these items is deflated by the corresponding price index, the ap-

parent increase between 1954 and 1961 in the quantities bought appears to have been in excess of 5 per cent per year. Though crop yields have risen as a consequence, the very substantial rise in expenditure tended to increase the farmer's vulnerability - at a time when he was also under growing pressure from the rather unfavourable trend in cost price relationships.

#### THE SEASONS 1962/63 AND 1963/64

It may be that I am devoting an undue portion of my allotted time in looking backwards, at a period somewhat remote from 1964 and 1965. A basis for comparison is necessary, however, in order to gain some idea, firstly, of the impact of the unfavourable weather conditions experienced to some extent in 1962/63 and much more widely in 1963/64; and secondly for judging future prospects.

Mainly as a result of the drought conditions, the total volume of agricultural production hardly increased in 1962/63 and shrunk by an estimated 5 per cent in 1963/64. Crop production in the interior, in particular, was hit very hard - causing the crop-production index to decline by some 13 per cent.

Whilst these figures are serious enough in themselves, it should be borne in mind that they possibly do not reflect the full extent of the losses, especially not in respect of the livestock industries where stock numbers and breeding may have decreased. Losses were not evenly spread, so that some areas and some farming enterprises suffered far more seriously.

On the other hand, some favourable developments have made their appearance. Beginning in 1961/62, average farm product prices show an overall improvement of over 7 per cent by 1963/64, although the major share of this rise occurred only in 1964. This rise in prices exceeded known increases in wage rates and in the prices of farm requisites and machinery by a significant margin, but not sufficiently to offset the decline in production in 1963/64. As a result the net income of agriculture, which rose by about 3 per cent in 1962/63,

is preliminarily estimated at some 3 per cent less for 1963/64. It appears probable that the farming sector's contribution to the net national income may, as a result, have dropped to a record low for South Africa of little more than 9 per cent.

#### GENERAL PROSPECTS FOR 1964/65

Notwithstanding the setbacks suffered over the past two seasons, the underlying factors currently seem to indicate considerable grounds for confidence in agriculture's prospects for 1965.

In the September issue of the "Reserve Bank Quarterly Review" the following observation appears: "The current expansion phase of the business cycle in South Africa has now entered its fourth year and, although the rate of increase of certain economic indicators has tended to decline during recent months, present indications are that the upswing will continue." I also recall reading somewhere a statement by the Governor of the S.A. Reserve Bank that the real national income increased by 7 per cent in 1963, and by Mid 1964 was still running at a rate of 6 per cent above the corresponding rate for 1963.

These favourable developments have already been reflected in substantial improvements in the demand for a wide range of agricultural commodities, with resultant improved sales during 1962/63 and 1963/64. In view of the generally favourable outlook in regard to the economy as a whole, it appears only reasonable to expect a further material growth in the demand for food products, although more likely at a slower rate than in 1963/64 - when consumer expenditures for food appears to have increased by nearly 10 per cent over the previous year's level.

The outlook in the export markets also appears promising at this stage. After 10 years of stagnant world market prices, unit export values rose by 8 per cent in 1963, according to a recent F.A.O.

Report. This revival is due in no small measure to the favourable economic conditions in most countries of the Western world, which also happen to be the main importers of agricultural commodities.

As the general economic trend in these countries is judged very favourable, the demand for agricultural imports is generally expected to remain at a high level - at least in the short run.

Subject to certain reservations and qualifications, I am inclined towards the view that, overall, the prospects for producers' prices for 1965 are favourable. Unless the prices for farm implements and farm requisites should rise more rapidly than in recent seasons, the "terms-of-trade" can be expected to move somewhat further in favour of agriculture.

Assuming this to be correct, the question arises whether agriculture can recover the ground lost during the past two seasons and re-instate a satisfactory rate of growth in production. The answer naturally depends in the first instance on the weather in the coming season. The ravages of drought have been severe over substantial areas; and to overcome some of the ill-effects, particularly in respect of the livestock industries, may require more than one season. South African agriculture, however, possesses remarkable powers of recovery, as had been shown on more than one occasion in the past. All farming requisites, machinery and implements are freely available. It is not expected that labour will be a limiting factor except in isolated instances. Likewise, with the relatively favourable price prospects in view, adequate credit for production purposes should be readily forthcoming.

I have no doubt therefore that, given favourable weather, the overall level of production in 1964/65 could exceed the pre-drought levels by a substantial margin - thus enabling agriculture at long last to share in the current boom more tangibly.