



The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

Agrekon

VOL.6 No.2

APRIL 1967

Editorial Committee: A.J. du Plessis (chairman),
Dr. A.P. Scholtz, H.J. van Rensburg and O.E. Burger
Editor: Dr. A.J. Beyleveld
Technical editing: J. de Bruyn

REQUIREMENTS FOR CONTRIBUTIONS

Articles in the field of agricultural economics, suitable for publication in the journal, will be welcomed.

Articles should have a maximum length of 10 folio pages (including tables, graphs, etc.), typed in double spacing. Contributions, in the language preferred by the writer, should be submitted in triplicate to the Editor, c.o. Department of Agricultural Economics and Marketing, Pretoria, and should reach him at least one month prior to date of publication.

The Journal is obtainable from the distributors: "Agrekon", Private Bag 144, Pretoria.

The price is 20 cents per copy or 80 cents per annum, post free.

The dates of publication are January, April, July and October.

"Agrekon" is also published in Afrikaans.

Contents

| | <u>Page</u> |
|--|-------------|
| I. EDITORIAL | 1 |
| II. ECONOMIC TENDENCIES IN THE SOUTH AFRICAN AGRICULTURE | 4 |
| III. ARTICLES | |
| 1. Kaffircorn Production and the Bantu Beer Industry by A.P. Scholtz and L.M.D. Vorster | 6 |
| 2. The Marketing of Leaf Tobacco in South Africa by J.D.R. Henstock | 16 |
| 3. Financial Assistance to Farmers in terms of the Agricultural Credit Act, 1966 (No.28 of 1966) - Contributed by the Department of Agricultural Credit and Land Tenure | 21 |
| 4. A Comprehensive View of and Basic Approach to Agricultural Policy by J.B. de Swardt | 23 |
| IV. STATISTICS | 30 |
| V. GENERAL, COMMENTS AND ANNOUNCEMENTS | 37 |

A Comprehensive View of and Basic Approach to Agricultural Policy

by

J.B. DE SWARDT,

Senior Lecturer, Department of Agricultural Economics,
University of Pretoria

INTRODUCTION

Agricultural policy covers a wide field and consequently there is a tendency to approach the study of this aspect of agricultural economics piecemeal. As with any science a basic approach to agricultural policy would lead to a better insight and a better knowledge of the proper relationship of the facts. Appraisal of policy can only take place when the basic principles are known.

As a result of the confined view of agricultural policy only a few aspects are frequently accentuated, while the various facets are apparently not understood. In this article an attempt will be made to create a complete picture of policy and thus arrive at an orderly arrangement of the relevant facts, and finally to prepare a framework indicating the relationships. In conclusion attention will be paid to the principles on which agricultural policy is based.

Policy may be defined as a program which contains the principles of a group. This program of action is usually undertaken by the Legislature in terms of agricultural legislation. The principles referred to are reflected in the system of values¹⁾ of the groups involved, in this instance the agricultural community. Any program of action (agricultural policy) will in the first instance require basic information on the following:

- 1) Values may be considered as generally accepted social norms.

- I. Aspirations of the farming community, that is a study of the system of values;
- II. a description of the existing situation, that is what has agricultural policy attained thus far and to what extent does it correspond to the aspirations of the farming community;
- III. knowledge of alternative aids which would make it possible to move from the existing situation to the ideal.

This approach will uncover the entire field of study of agricultural policy.

1. THE SYSTEM OF VALUES OF THE FARMING COMMUNITY

Agricultural policy is a program of action, in this instance group action, which is undertaken by the State to attain certain generally accepted aspirations or values of the community. Knowledge of the system of values of farmers thus constitutes the basis of policy, because -

- 1) values are the yardstick by which decisions on objectives are taken and this is directly related to policy;
- 2) to understand current policy and to appraise it, one must be acquainted with the values of the farming community;
- 3) values determine the direction of future action, since policy decisions are taken and guided within the framework of values; and

- 4) problems in terms of values of the farmers can be identified, and may be defined as the gap between the current agricultural situation and the values of the farming community.

These values must be looked upon as the ultimate objectives of agricultural policy. Values are accordingly judged in relation to their contributions to economic welfare since any objective of policy must fit into the total socio-economic framework of the national economy, and it must not conflict with objectives established in terms of general economic policy. Agricultural policy is thus a subordinate part of general economic policy.

The two most important objectives of economic policy in modern Western countries, with which agricultural policy objectives must fit in, are undoubtedly the maximising of the national product (productive norm) and the attainment of the optimum distribution of income between individuals (distribution norm).

A policy objective normally includes a number of values or aspirations which do not conflict with others, and which satisfies a large section of the community. Values may thus be considered as the ultimate objectives, while objectives contained in agricultural legislation are of an intermediary nature. Values are accordingly judged in relation to their contributions to economic welfare.

If aspirations (ultimate objectives) are to be attained, we are concerned with a group of objectives, and not merely one. An objective can thus attain various values or only one. Any policy measure must then be tested in relation to productive and distribution norms.

When an analysis of the value system of South African farmers is made, it will be found that there is practically universal

agreement on the following values or ultimate objectives:

1. Values pertaining to the maximising of the national product

(a) Economic organisation. Various values exist in relation to the manner in which the economic system should be organised. These values (in economic terms) which include inter alia the raising and consolidation of long term income from agriculture, contain three requirements to which the economic system must comply, namely economic efficiency in the employment of production factors, control within limits and finally an equitable distribution of political and economic power.

- (i) Efficiency. The farming community considers that the individual should be rewarded in accordance with his contribution to the total national product and claims that agriculture should also share in prosperity or economic development. Such a claim will be unfounded if agricultural production factors are not employed in the most efficient manner. This brings about the striving after efficiency so as to share in the benefits which the economic system offers.
- (ii) Control. The reason why the farming community prefers an economic system which does not (through control) influence the decisions of the individual, is because they believe the marketing mechanism functions best under the free actions of the individual.
- (iii) Distribution. The farming community desires an equitable distribution of political and economic power, because they consider that an economic system, which allows free competition, will maximise production and remuneration will in such a system be in accordance with productivity.

(b) Economic growth. Economic growth is considered a prerequisite, for economic stability because it results in a stable and expanding supply of food and raw materials with the employment of fewer production factors. Economic growth thus leads to greater welfare and consequently this value is normally included in agricultural policy. Structural policy¹⁾ which is mainly directed to the functions of agriculture is relevant here.

(c) Economic stability. Because of the inherent characteristics of agriculture, namely fluctuating prices and uncertain output, South African farmers attach great importance to stability. There is, however, not always a clear conception of "stability", since stability of prices, production, per capita income, demand for agricultural products etc., is frequently confused. Stability for the agricultural industry, and for the individual farmer should also be kept apart.

These values are thus all directed towards increased productivity and maximum national product.

2. Values pertaining to an equitable distribution of income

Whatever the volume of the social product might be, people hold certain views as to how that income should be distributed between production factors, social groups or individuals.

Examples of this are inter alia the general view that decent social opportunities in respect of education, consumption and income for all members of the society should be ensured - hence the concern about uneconomic farm units. Through

- 1) For a detailed discussion see: Brand, S.S. and Tomlinson, F.R. Die Plek van die Landbou in die Suid-Afrikaanse Volkshuishouding. The South African Journal of Economics, Vol.34, No.1, March 1966.

various governmental measures efforts are made to bring the level of incomes in agriculture closer to those of non-agricultural sectors.

3. Other general values

(a) Political and social stability. These are prerequisites for economic stability. This value is considered important as is shown in the Report of the Commission of Inquiry into European Occupancy of the Rural Areas. The Commission reports as follows: "Also from a sociological point of view therefore, it is imperative that there should be a relatively substantial White population in the rural areas. At any rate the number should be large enough for the platteland to exercise a beneficial influence on the people as a whole".¹⁾ This sociological hypothesis must, however, be tested.

(b) Public action. The accepted view amongst farmers is that they will express their aspirations soonest through group action - hence the value attached to Organised Agriculture.²⁾

The task in formulating policy is thus to attain these aspirations or values of farmers. This is done by means of legislation and is reflected in the objectives of policy.

CLASSIFICATION OF OBJECTIVES

The classification of objectives in agricultural policy can thus be made in terms of values (material and spiritual). By enquiring what the farming community desires, the objectives can be classified accordingly.

- 1) Report of the Commission of Inquiry into European Occupancy of the Rural Areas. The Government Printer, Pretoria, 1959-60. Paragraph 51.
- 2) Hathaway, D.E. Government and Agriculture. MacMillan Co., New York, 1963. Chapter 1.

Every country strives towards maximum welfare; to attain this endeavour must be directed towards maximum social (net) national product and the equitable distribution of income. If it is accepted that maximum profit is the goal, then the classification of objectives of agricultural policy is contained in the following formula:

$$\text{Profit} = (\text{Production} \times \text{Price}) - \text{Costs}$$

From this equation of the first degree policy can thus be divided roughly between production and price policies¹⁾. Production policy may be further subdivided into policy which specifically relates to distinct factors of production, namely credit policy which concerns the provision of capital, land economics policy which concerns the production factor "soil" and special legislation relating to the human factor to ensure that capable individuals are retained in agriculture. After the above-mentioned has been formulated attention must be directed towards the profits realised, and the equitable distribution of income comes to the fore.

In the Introduction it was stated that there is a tendency to approach policy piecemeal and attention is only concentrated on some of the facets which have been mentioned. Classification of objectives may now be made in terms of the aspects which have been mentioned, by determining what is desired (that is aspirations or values) in relation to production (human, soil and capital factors) and prices - and finally how the income should be distributed.

Attention will accordingly be directed towards what is desired or aspired to and thus serves the farming community in the best manner.

- 1) Price in this context, does not include merely prices of agricultural products and farming requisites (costs) as such, but must be viewed in the broader perspective of price relationships.

1. Price Policy

Various objectives which can be traced to the value system of farmers may be mentioned:

- (a) Realistic price relationships between:
 - (i) Domestic and foreign or export products;
 - (ii) various agricultural products (maize and meat);
 - (iii) agricultural products and farming requisites (costs); and
 - (iv) agricultural and industrial products.
- (b) Price stability.
- (c) Consideration of all the interested groups concerned with prices - consumers, producers and middlemen.
- (d) The efficient functioning of the price mechanism¹⁾.

These objectives are reflected in particular in the Marketing Act, the Co-operative Act as well as international agreements.

2. Production policy

Various objectives are directed towards long term high productivity. High productivity must be linked to stable production. These objectives may be applicable to the agricultural sector in general or may be concentrated on a single product, and may be grouped as follows:

- (a) Credit policy which may inter alia include the following:
 - (i) Rehabilitation;
 - (ii) to bring unoccupied areas into use;
 - (iii) to keep farmers in the rural areas; and
 - (iv) special financing because of the inherent characteristics of agriculture.

- 1) The functioning of prices is the determination of values, allocation of production factors, the distribution of the product (between consumers) and the determination of the reward to production factors.

These objectives are contained in the Agricultural Credit Act (No.28 of 1966) and the Land Bank Act (No.13 of 1944).

(b) Policy on the utilization of land, which includes:

- (i) The best utilization of resources;
- (ii) exploitation and development of resources; and
- (iii) protection of resources.

These objectives are reflected in the Agricultural Credit Act (No.28 of 1966), the Soil Conservation Act (No.45 of 1946) and the Land Tenure Act (No.32 of 1966).

(c) Policy relating to the Human factor.

Measures of this nature will be largely confined to certain regions, where a large percentage of uneconomic units exist or where rural areas are "over-populated".

3. Distribution of income

Here the following objectives are important:

- (i) Distribution of the production factors as reflected in policies with respect to occupation of land which may inter alia influence the sub-division of land;
- (ii) distribution of income through progressive income tax or as in other countries through land taxes; and
- (iii) special measures which are directed in particular to areas where many poor families live and where a minimum income is not attained.

Few such measures are as yet applied in South Africa. The reason might be that these measures would be confined to certain areas and that it would be difficult to differentiate in practice.

II. THE PRESENT AGRICULTURAL SITUATION

It is difficult to visualise a program of action or formulation of policy without being acquainted with the current situation. It is therefore necessary to establish what has been attained up to the present (current situation) and what is actually desired (values). It is required of policy to bridge the gap between the current situation and the aspirations of the farming community. Problems encountered in agriculture may thus be described as the gap between these aspirations and the current situation. These issues require special measures to attain aspirations and consequently objectives of these programs (usually by way of legislation) are linked to such issues. Thus the Marketing Act might be applied to raise productivity (maximum efficiency) or to bring about price stability over short and long terms (the first relates to economic stability and the second to the equilibrium between agricultural and non-agricultural prices). The ultimate objectives are, however, maximum national product and optimum distribution of incomes.

Legislation arises mostly from the spirit of the times; that is, when certain problems appear. As a result of for example general economic conditions or wars the agricultural community is frequently pushed away from its objectives and to narrow the gap, special legislation is required. It is therefore essential that agricultural policy should be dynamic to allow for adjustments. Instability, a low level of farm income per capita and poverty may thus all be linked to the values of the farming community.

Policy does not only develop out of the spirit of the times, but certain needs of the farming community also develop. These needs may develop as a result of historical factors or as a result of changes in foreign countries - the value system of the farming community may thus change. In the past any

form of government interference was for example undesirable and unacceptable but, as the role of the State in the national economy grew, the need for State interference developed.

The physical limitations of South African agriculture are frequently wrongly referred to as problems; actually this is not so. These limitations merely provide the framework within which agricultural policy has to be executed - hence the slogan, that agriculture must adapt itself to nature. These limitations thus require special measures like differentiation in the application of policy.

A positive policy will, therefore, be directed towards adjustments to overcome certain limiting defects in agricultural organisation, or to allow for adaptation. Agricultural policy will also be dependent upon the potential opportunities for development provided by resources, as well as the social and economic conditions of the country which in turn determine the direction in which resources should be employed¹).

III. ALTERNATIVE AIDS TO ATTAIN THE IDEAL SITUATION

With knowledge of the values of the farming community, it is possible to identify problems by determining the gap between the current situation and aspirations.

Should solutions to problems be sought, it is essential that the latter should be narrowly formulated. Problems are then, as in the previous section, circumscribed in terms of the deviations from the ideal or optimum conditions as determined by the values of the farming community. One must be acquainted with the nature of agricultural problems, the causes and all alternative solutions to overcome these.

1) Franzsen, D.G. and Reynders, H.J.J. Die ekonomiese lewe van Suid-Afrika. J.L. van Schaik, Ltd., Pretoria, 1963. Page 100.

When referring to South African agricultural policy, this usually implies the application of agricultural legislation, inter alia the Co-operative Act, the Land Bank Act, Marketing Act, Soil Conservation Act, separate legislation in respect of a few agricultural products and State assistance schemes and services (research and extension). An appraisal of agricultural policy must, however, be made in terms of legislation as a whole (not only agricultural legislation is important), the value system of the farming community and what the current position is. Only then it is possible to consider alternative policy proposals.

Finally it must be emphasized that the formulation of objectives as such would have little meaning if the implementation of policy is not feasible.

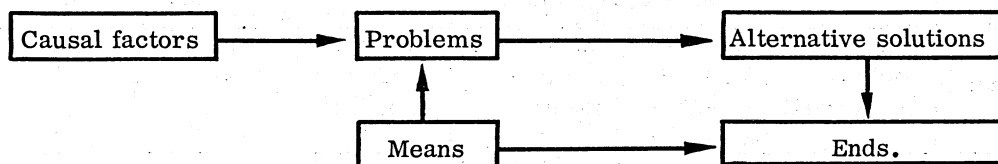
SUMMARY

A basic approach to policy must therefore accept the value system of the farming community as the starting-point. Current policy can only be appraised and formulated, or both, when the present situation is judged in terms of the value system. Through such an approach agricultural problems can be identified and then the factors which cause these must be thoroughly analysed so as to find the most appropriate alternative measures which will provide solutions.

Agricultural policy must comply with the following basic principles:

1. Objectives must fit into the wider socio-economic policy. Values must be selected in accordance with their contribution to economic welfare.
2. Co-ordination. Agricultural policy is not something apart and co-ordination between agriculture and other sectors is essential.
3. Flexibility. Policy must be dynamic over time and adjustments to economic

For the purpose of appraising agricultural policy,
the diagram could serve as a basis



Agricultural policy:

- | | |
|--|--|
| 1. Legislation and programs. | 1. Aspirations of farming community (value system). |
| 2. Services - protective, extension, research. | 2. Objectives, (which include as many values as possible). |

conditions and structural changes are essential over the long term, while objectives may also change.

4. Practicable implementation. The implementation of legislation is just as important as the drafting of it.

5. All interested parties must be considered. Producers are not the only group concerned with agricultural legislation, but also the consumer, middleman and the rest of the community. Heady, for example distinguishes between "developmental" and "compensation policies".¹⁾ The first benefits consumers and the latter producers. The interests of these groups will of necessity conflict.

6. Differentiation. As a result of regional differences relating to natural factors, use-capacity, the degree of protection of the soil, etc., differentiation is at times essential. This is one reason why regional development at present meets with approval.

1) Heady, E.O. Agricultural policy under economic development. Iowa State University Press, Ames, Iowa, 1965, Page 15.

7. Causes and symptoms must be clearly distinguished.

8. It is necessary to distinguish between long term and short term problems and consequently also between long and short term objectives. Problems which arise out of the normal process of economic development are of a long term nature, while counteracting a drought requires short term measures.

9. Sociological and economic considerations might be equally important.

10. To determine the role of agriculture in the national economy, one must be acquainted with the basic functions which this sector fulfills. This is essential for the formulation of structural policy for a country where economic growth demands continuous adjustments in agriculture. The function of agriculture is to provide food and raw materials, it earns foreign exchange, provides labour and is also an employer and a market for the non-agricultural sectors.