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Agrekon

VOL. 9 No. 4 OCTOBER 1970

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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. Contribuitions, 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 25 cents per copy or R1 per annum, post free.

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

"AGREKON" is also published in Afrikaans.

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Editorial

Large-scale production in agriculture

The agricultural industry, as is in fact also the case with other sectors, is experiencing a phase in which radical changes in the farming structure are occurring at an increasing rate. These changes have economic considerations as source and although stimulated by a variety of factors, it stems basically from the industry itself and would consequently be difficult to arrest. However, adjustments to meet changing circumstances are necessary in order to ensure that the agricultural industry maintains its competitive position.

Underlying these adjustments - whereby efficiency in production is increased - are rapid technological developments. This amongst others, results in manpower being replaced by mechanisation and unit yields of crops and livestock being increased with the aid of better breeding material and proper cultivation and care. The increasing volume of agricultural production is thus the result rather of intensification than of horizontal expansion.

The most important consequences of the adjustments to meet changing circumstances are that the number of entrepreneurs who are economically active in agriculture is gradually decreasing; the efficient size of units increases - especially in the case of certain branches of industry; the financial lay-out rises steeply because more use is being made of purchased production goods; the risk factor increases owing to intensification; and farming has to be managed basically as a business concern where the primary requirements are intelligent management, high technical skill and business acumen.

In most industries consolidation, and in consequence expanding units, are accepted as a natural phenomenon. Linking of interests is considered advisable and justified, especially where this results in increased efficiency and a lowering of unit costs. The coming into being of such units, originating from entrepreneurs inside agriculture, is accepted as such by the industry. This process has already been continuing for years, often with the aid of capital and technicians drawn from sources outside agriculture. However, in recent years there has been a new development in that entrepreneurs from outside agriculture, having large scale production as their object, commence farming either together with existing enterprises or by take-over of existing interests. Judged in general, however, it would appear at this stage that large-scale undertakings, originating from entrepreneurs inside agriculture, are encountered more generally than business undertakings which enter and operate on the same basis.

Business undertakings are attracted to agriculture mainly by profit possibilities and in order to take precautions for a sufficient and regular flow of supplies where they act as distributors and processors of agricultural products.

Business undertakings are attracted by the profit motive when a relatively large income can be earned as a result of favourable price levels or when prices rule which bear a relation to costs, but where costs can be reduced by more efficient production.

Thus the broiler industry lends itself to large-scale production and, notwithstanding increasing unit costs of production goods, the unit price of the end product decreased sharply during recent years.

The entry into agriculture by entrepreneurs in the field of business and by processors of agricultural products in order to make appropriate provision for ensuring supplies, applies in respect of several branches of the industry. Packers in the egg industry were on occasion unable to draw sufficient supplies of the required quality and size according to the needs of the trade, direct from producers. Some of these packers have, either in conjunction with existing interests or by starting their own enterprises, commenced with the production of eggs.

Processors of products establish their enterprises in a particular locality on the strength of existing production and production potential. To ensure further that they receive sufficient supplies, it has for example become practice with processors of vegetables to enter into agreements with producers whereby certain production goods are supplied and produce purchased at pre-arranged prices. Where producers could not honour their contracts for specific reasons, processors themselves commenced production, since a regular and balanced flow of supplies are essential for economically successful processing.

Large-scale production, with origin either from within or from outside agriculture, consequently has economic considerations as basis. This action is in accordance with the basic principles which are applicable in a free and developing economy, where the choice of entry and the way of operating rest with the individual or group. The market mechanism is relied upon as regulator, and restrictive or protective measures are avoided unless such developments are not considered in the national interest. Governmental action in the agricultural field in South Africa is largely confined

to the bargaining power of agriculture in the marketing sphere, since the marketing of agricultural produce under conditions of free marketing competition does not always produce satisfactory results. The realisation of a reasonable measure of price stability in particular, is the underlying motive of governmental action in the marketing sphere. Where entry by large undertakings dislocates the marketing mechanism, the Government is prepared to take action. The measures applied to control the expansion of egg production serves as an example.

The basic principle which was adhered to up to the present, was to interfere as little as possible as regards the production of agricultural produce, especially since the freedom of action of individual entrepreneurs is highly valued. Measures such as production and marketing quotas, as also the control of the price of land, would involve a greater measure of interference with the freedom of the farmer as independent entrepreneur - a principle which thusfar was not acceptable to either the farmer or the Government. Should the principle of free entry into agriculture no longer be maintained, the Government would have to be prepared to take similar steps in respect of other sectors of the economy. On account of its capital requirements, agricultural production is already largely a closed industry.

Yet there are interest groups in agriculture who desire that steps be taken to limit entry by large-scale undertakings from outside agriculture. To take such a step without more ado, would definitely not be in the best interests of agriculture and of the national economy. In a free economy such discrimination in respect of entry into an industry, especially by utilising statutory powers, could hardly be justified.